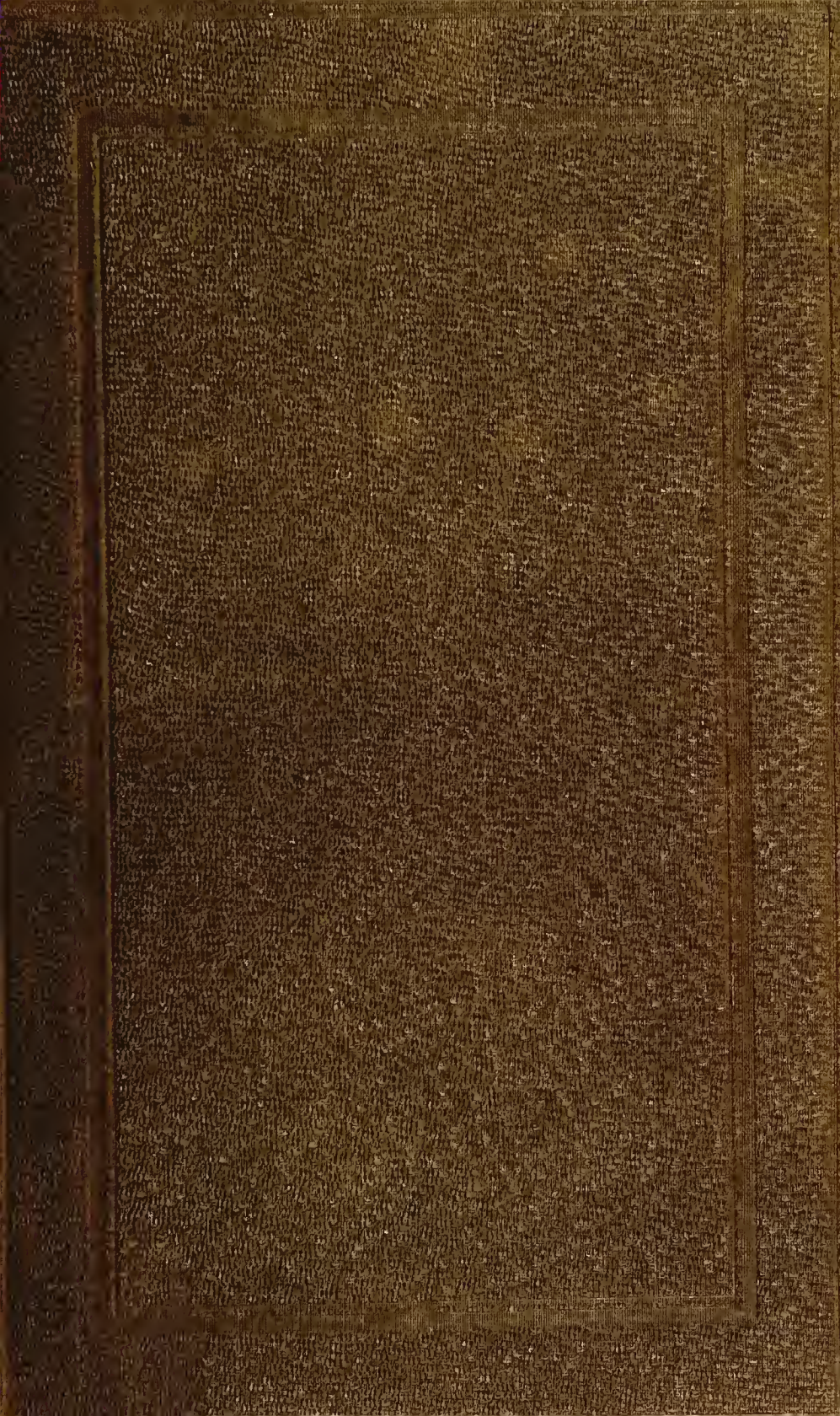
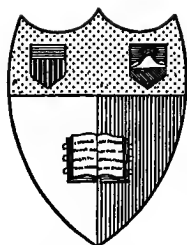
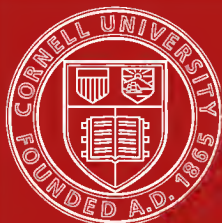






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A TREATISE
by
ON
COINS, CURRENCY, AND BANKING.

PART II.

LONDON
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A TREATISE
ON
COINS, CURRENCY, AND BANKING.

WITH OBSERVATIONS ON

THE BANK ACT OF 1844

AND ON THE

REPORTS OF THE COMMITTEES

OF THE

HOUSE OF LORDS AND OF THE HOUSE OF COMMONS

ON THE BANK ACTS.

By HENRY NICHOLAS SEALY, Esq.

..... Magnâ testatur voce per umbras :
Discite justitiam moniti.

VIRGIL.

PART II.

LONDON:
LONGMANS, GREEN, AND CO.
1867.

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PREFACE

TO

THE FIRST PART.



SIR ROBERT PEEL observed, when he introduced the Bank Bill of 1844, that, in the opinion of Her Majesty's Government, "Inquiry had been exhausted."

Since the passing of that Act, the subject of the Currency has been much discussed. A Committee of the House of Lords and a Committee of the House of Commons have made valuable reports on the commercial distress of 1847, which was supposed by many to be closely connected with the system of Banking introduced by Sir Robert Peel's Bill: the witnesses are not agreed upon the influence which the Bank of England may have had in producing or aggravating that distress, nor are the Committees agreed upon any remedial measures—the Committee of the House of Commons recommending no alteration in the Act.

Since these reports were made, a Committee of the House of Commons sat in the last session of Parliament on the same subject, and which has been reappointed to carry on the inquiry in the present Session, and also to inquire into the causes of the commercial distress of 1857. This Committee made a report of the evidence given before them in the last Session, and is still sitting. On these reports and on the evidence I have made some observations, with an epitome of the report of the House of Lords.

It appears to me that "inquiry" is not "exhausted," and that "those great elementary truths" (in the language of Sir Robert Peel, p. 18) "which are at the foundation of the whole system of currency, paper-credit, and foreign exchange," are still *desiderata*.

For many years I have been in the habit of watching the course of events connected with our present system of Banking, and of noting down my remarks as they have occurred. The publication of this treatise has been delayed from various causes; a great part of it, as far as Chapter XVI. inclusive, was printed last summer. I then waited to see the Report of the Committee sitting at that time.

I have perused some of the many publications which have appeared on the Currency; they generally treat of management, and not of principle: opinions which

I had previously formed, and committed to writing, I have in some instances found confirmed.

Many years before the passing of the Bank Act of 1844, I had conceived and written my plan for changing our gold to a silver standard: as the principle is the same whether the change be from a gold to a silver or from a silver to a gold standard, I have thought that it may be desirable to publish it in this treatise. There was no prospect of our standard being changed in 1844. The discovery of the gold mines in Russia rendered very doubtful the policy of adopting the silver standard, and the recent discoveries of gold in California and Australia render more hazardous any change in the domestic or national standard: it will be prudent to wait to see what effect these wonderful discoveries may have on the standard of this and of other countries.

I may remark that the principles which I advocate are of universal application wherever foreign commerce exerts its civilizing influence, and I venture to recommend them to the notice of the great mercantile republic, the international traders of all countries.

I trust it is needless for me to disclaim all intention of impugning the motives of any writer, or of any witness who gave evidence on this long-agitated question of the Currency, or of any director of the Bank of England; least of all, would I think or speak dis-

respectfully or question the motives of Sir Robert Peel. That great man had the courage to overthrow a narrow commercial policy, which had for ages prevailed more or less, and which had been continued, notwithstanding the cogent reasoning of Adam Smith, by whom it had been denounced seventy years before; nor would that enlightened legislator have shrunk from introducing any new measure of Currency or Banking, even in opposition to his own Bill, had he thought it conducive to the welfare of the country. (Debate, May 10, 1847.—Hansard.)

If it can be shown that the circulation of coins may be brought within the rule which governs the exchange of commodities; that the value of paper money depends upon the performance of a promise; that bank-notes may be placed in the same category as any other written engagement that circulates among the community in the payment of debt; that the basis on which they rest is truth, and that the absence of truth is their only weakness, I think the subject will be divested of much obscurity, and the Currency question “will be drawn from those dark recesses wherein,” it appears to me, that “man, not God, has hid it.”

Taking truth and justice as the only safe principles, and Adam Smith as the great political writer on Com-

merce, I venture to submit my opinions to the public; and I shall be quite willing to yield assent to any more *just* or more *true* system, if it be discovered.

The author of the present treatise hopes that his attempt to elucidate this “*questio vexata*” will be received with candour, and that some indulgence will be shown for any defects of style, by those who may honour it with a perusal.

CASTLE HILL HOUSE, NETHER STOWEY, SOMERSET

June 1858.

PREFACE

TO

THE SECOND PART.



I HAVE prefixed to this second part of my “Treatise on Coins, Currency, and Banking,” the preface of the first part. The principles of truth and justice which I advocate are the same in both, but with this difference, to which I beg the attention of those who may honour with a perusal the first part, in which I have reasoned on the supposition that the Bank of England was under a moral obligation to pay their promissory notes with *bullion*, if demanded. In this second part I entirely reject all claim of the public to be paid with *bullion*, being foreign to the engagement of the Bank of England, and I confine the *moral obligation* to the payment with *coin*, the only *money*.

In this second part I have considered the nature of money and of interest, with the distinction between

interest and usury, between a rate of interest authorized by law, and a rate which may depend upon the necessities of the borrower and the exaction of the lender: and I have given the opinions of learned jurists upon these subjects.

I have also made remarks on the Report of the Committee of 1858, which appeared soon after the publication of my volume; and likewise on the maxims advanced on the 31st July, 1866, in the debate upon the motion of Mr. Watkin: these additions will render more complete my treatise on "Coins, Currency, and Banking."

I can only express my hope that this second attempt to elucidate the long-agitated question of the currency will be viewed with candour, however unable I may be to do justice to the great cause of freeing commerce and credit from the trammels imposed upon both by the present system of restriction and limitation.

CASTLE HILL HOUSE, NETHER STOWEY, SOMERSET:

March 1867.

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TREATISE
ON
COINS, CURRENCY, AND BANKING.

(SECOND PART.)

CHAPTER I.

REPORT.

THE SELECT COMMITTEE appointed to inquire into the OPERATION of the BANK ACT of 1844 (7 & 8 Vict. c. 32), and of the Bank Acts for Ireland and Scotland of 1845 (8 & 9 Vict. c. 37 & 38), and who were instructed to inquire into the causes of the recent commercial distress, and to investigate how far it has been affected by the laws for regulating the issue of bank notes payable on demand, and who were empowered to report their observations thereupon, together with the MINUTES of the EVIDENCE taken before them:—HAVE considered the matters to them referred, and have agreed to the following REPORT:—

1. The ten years which have elapsed since the last Committee sat under the same Order of Reference—viz., the Committee on Commercial Distress, which reported in 1848—have been marked by many circumstances of peculiar interest and importance. The foreign trade of the United Kingdom has in that period increased with a development unprecedented, perhaps, by any other instance in the history

of the world. The exports, which before 1848 had never exceeded 60,110,000*l.*, the amount which they attained in 1845, have risen with little variation and with great rapidity; and in 1857, notwithstanding the severe commercial pressure which marked the latter portion of that year, they stood at 122,155,000*l.*

2. In the year 1849, the newly-discovered mines of California began to add perceptibly to the arrivals of gold; and in 1851 the supply was increased by the still more fertile discoveries in Australia. The following figures, for which your Committee are indebted to the authorities of the Bank, will show how important an addition appears to have been made to the circulating medium of the world from these new sources of supply:—

Estimated Increase of the European Stock of Bullion in Seven Years, 1851-1856.

	Imports from producing Countries.		Exports to the East from Great Britain and Mediterranean.	
	Gold.	Silver.	Gold.	Silver.
	£	£	£	£
1851 . .	8,654,000	4,076,000	102,000	1,716,000
1852 . .	15,194,000	4,712,000	922,000	2,630,000
1853 . .	22,435,000	4,355,000	974,000	5,559,000
1854 . .	22,077,000	4,199,000	1,222,000	4,583,000
1855 . .	19,875,000	3,717,000	1,192,000	7,934,000
1856 . .	21,275,000	4,761,000	479,000	14,108,000
1857 . .	21,366,000	4,050,000	529,000	20,146,000
	£130,876,000	29,870,000	5,420,000	56,676,000

Gold.

	£
The total import of gold in seven years has been, say	130,000,000
The exports of gold bullion and British gold coin to India, China, Australia, the Cape, Brazils, the West Indies, United States, &c. may be taken at	22,500,000
Which would leave as the increase to the European stock of gold	107,500,000

<i>Silver.</i>		£
The exports of silver to India and China have been . . .	£56,676,000	
The imports from the producing countries . . .	29,870,000	
Making the amount of silver abstracted from the European stock . . .		26,800,000
And the estimated increase in the European stock of bullion . . .	£	80,700,000

3. The remission of duties upon articles of necessity and upon the raw materials of industry, and the great increase of trade to which your Committee have referred, were naturally attended by a very remarkable improvement in the comforts and consuming power of the people, as exhibited in the imports; and especially in the vast increase in the clearances of those articles which enter most materially into the consumption of the working classes. It is probable that to this cause ought chiefly to be attributed the great increase which is believed to have taken place in the circulating medium of the United Kingdom.

Mr. Weguelin, a member of the Committee, and then Governor of the Bank, stated to the Committee of 1857 that this increase was estimated, by those in whose judgment the Bank Directors placed the greatest reliance, at 30 per cent. in the six years then last elapsed. The total gold circulation is believed by him now to amount to nearly 50,000,000*l.* The whole circulation of notes, which, under the Acts of 1844 and 1845, are permitted to circulate without being represented by bullion, retained for that purpose in the coffers of those who issue the notes, is 31,623,995*l.*, of which 14,475,000*l.* are issued by the Bank of England; 7,707,292*l.* by the English country bankers; 3,087,209*l.* by the Scotch; and 6,354,494*l.* by the Irish bankers.

4. With regard to bank notes, it is interesting here to observe, that in the smaller denominations, those—namely, which enter most into the retail transactions of the country—the number has considerably increased, concurrently with the increase of the gold circulation above referred to. The 5*l.* and 10*l.* notes of the Bank of England, which in 1851 were 9,362,000*l.*, had risen in 1856 to 10,680,000*l.*

5. At the same time, for a reason which will presently be

noticed, a great diminution has been observable in the use of notes from 200*l.* and upwards.

6. The silver currency has in the same time increased as follows, viz. : —

Silver Coin issued to the Public in excess of Receipts from the Public.

	£
1851	26,307
1852	420,418
1853	554,442
1854	36,803
1855	47,754
1856	289,142
1857	242,273

7. While this expansion of trade was in progress, and the precious metals received this remarkable addition, a new feature in the banking business of the country was observable. The joint-stock banks in London entered more and more into competition with the private banks, and, by their practice of allowing interest on deposits, began to accumulate vast amounts. On the 8th June, 1854, the private bankers of London admitted the joint-stock banks to the arrangements of the clearing house, and shortly afterwards the final clearing was adjusted in the Bank of England. The daily clearances are now effected by transfers in the accounts which the several banks keep in that establishment. In consequence of the adoption of this system, the large notes which the bankers formerly employed for the purpose of adjusting their accounts are no longer necessary. The diminution in the use of these notes is shown by the following figures : —

*Bank Notes of 200*l.* to 1,000*l.**

	£
1852	5,856,000
1857	3,241,000

8. Meanwhile the joint-stock banks of London, now nine in number, have increased their deposits from 8,850,774*l.* in 1847 to 43,100,724*l.* in 1857, as shown in their published accounts. The evidence given to your Committee leads to the inference that of this vast amount, a large part has been derived from sources not heretofore made available for this purpose; and that the practice of opening accounts and

depositing money with bankers has extended to numerous classes who did not formerly employ their capital in that way. It is stated by Mr. Rodwell, the Chairman of the Association of Private Country Bankers, and delegated by them to give evidence to your Committee, that in the neighbourhood of Ipswich this practice has lately increased fourfold among the farmers and shopkeepers of that district; that almost every farmer, even those paying only 50*l.* per annum rent, now keep deposits with bankers. The aggregate of these deposits of course finds its way to the employments of trade, and especially gravitates to London, the centre of commercial activity, where it is employed first in the discount of bills, or in other advances to the customers of the London bankers. That large portion, however, for which the bankers themselves have no immediate demand passes into the hands of the bill-brokers, who give to the banker in return commercial bills, already discounted by them for persons in London and in different parts of the country, as a security for the sum advanced by the banker. The bill-broker is responsible to the banker for payment of this money at call; and such is the magnitude of these transactions, that Mr. Neave, the present Governor of the Bank, stated in evidence:—

“We know that one broker had five millions, and we were led to believe that another had between eight and ten millions; there was one with four, another with three and a half, and a third above eight. I speak of deposits with the brokers.”

9. It thus appears that since 1847 three most important circumstances have arisen, affecting the question referred to your Committee, viz.:—

(1) An unprecedented extension of our foreign trade.

(2) An importation of gold and silver on a scale unknown in history since the period which immediately succeeded the first discovery of America: and,

(3) A most remarkable development of the economy afforded by the practice of banking for the use and distribution of capital.

10. In the years which immediately succeeded the great commercial crisis of 1847-8, the natural effect of such a crisis on the minds of persons engaged in trade was exhibited, and for a time prudence and caution were the marked characteristics of the commercial world. The bullion in the Bank meanwhile accumulated, increasing with little variation, until in July 1852 it amounted to 22,232,000*l.* At this time

the notes in the hands of the public ran to the unusually large amount of 23,380,000*l.*, yet scarcely exceeded the amount of bullion; while the reserve of notes in the banking department of the Bank of England was 12½ millions, and the minimum rate of interest 2 per cent.

11. The consequence of such a state of things was manifested in the year 1853, when the exports, which in 1852 had amounted to 78,076,000*l.*, rose to 98,933,000*l.* The bullion at the same time declined, and was on the 22nd October of that year 14,358,000*l.*, while the reserve went down to 5,604,000*l.*, and the minimum rate of interest rose to 5 per cent.

12. In March 1854 war was declared against Russia, and an expenditure of nearly 90 millions is estimated to have been incurred by England on this account. The foreign payments were largely made in specie, which to a great extent was hoarded in the East. Foreign loans were also contracted in London for the purposes of the war. The aggregate trade of the United Kingdom varied little. The Bank rate of discount was raised in May 1854 from 5 to 5½ per cent., and continued at that rate till August 3, when it was again reduced to 5. On the 5th April 1855 it was reduced to 4½, the bullion then standing at 15,079,000*l.* and the reserve at 8,580,000*l.* The bullion continued to rise, until in June it amounted to 18,169,000*l.*, and the reserve to 11,887,000*l.* Before the end, however, of that year a great change occurred; and on the 27th December the bullion stood at 10,275,000*l.*, the reserve at 6,993,000*l.*, while the minimum rate of interest had been raised on 18th October to 6 per cent. for 60 days, and 7 per cent. for 95 days, at which rate it stood till the following May. The changes in the rate of discount which took place from April 1855 to March 1857 are thus stated by Mr. Weguelin:—

“ I have here a list of the various changes in the rates, beginning at April 5th 1855, when the minimum rate of discount for bills having not more than 95 days to run was 4½ per cent. On May 3rd, it was reduced to 4 per cent. On June 14th, it was reduced again to 3½ per cent. On September 6th, it was raised to 4 per cent. On September 13th, to 4½ per cent. On September 27th, to 5 per cent. On October 4th, to 5½ per cent. The Committee will remark that very rapid rise in the rate of interest, which was caused by the commercial demand for accommodation, and for the export of bullion, occurring at the same time with a considerable demand for bullion to supply the armies in the East. On the 18th of October

the rate was 6 per cent. for bills having 60 days to run, and for bills having 95 days to run it was 7 per cent. In 1856, on the 22nd of May it was reduced to 6 per cent., and on the 29th of May to 5 per cent., and on the 26th of June to $4\frac{1}{2}$ per cent., the minimum rate. There then occurred a great demand, and the rate was raised by order of the Governor on October the 1st to 5 per cent. That was not on the ordinary weekly court day, but in the interval of the court. On October the 6th (which was again not on a court day, but on a Monday), the rate was raised to 6 per cent. for 60 days' bills, and to 7 per cent. for bills not having more than 95 days to run. On November 13th, the minimum rate for bills of all descriptions having not more than 95 days to run was raised to 7 per cent. On December 4th it was reduced to $6\frac{1}{2}$, and on December 18th to 6 per cent., at which rate it now stands. Here is also an account of the variations with regard to temporary advances on stock. The first recent deviation from the practice that temporary advances on stock and exchequer bills should be made at the Bank minimum rate ordinarily, and at $\frac{1}{2}$ per cent. below the minimum during the shuttings, seems to have occurred in July 1854, when exchequer bond scrip was in the market. The Bank minimum rate was then $5\frac{1}{2}$ per cent.; temporary advances were made at 5 per cent., and advances were made on exchequer bond scrip at 4 per cent. I believe that was an especial arrangement at the time, which had not much reference to the state of the money market. The term of those advances varied from 14 to 31 days. During the shutting for the dividends due in January 1856, the allowance of $\frac{1}{2}$ per cent. on advances on stock, &c. was withdrawn, and no such advances have since been made at a rate below the Bank minimum. On the 8th of January 1856, the demand for advances chiefly on Turkish scrip and bonds continuing beyond the payment of the dividends, the term was contracted to 14 days. During the shutting for the April dividends this restriction was removed. After the April payment the general term was 14 days; but there does not appear to have been any restriction to that period. After the October payment the term was contracted to 7 days; and on the 16th of October the Bank refused to advance on any Government securities except exchequer bills. About the 11th of November the Bank declined to re-discount bills having more than 30 days to run; that is, bills which had been advanced upon by brokers. During the shutting for January the usual course was resumed, without restriction as

to stock or term. On the 9th of January 1857 the rate for advances on Government stocks and exchequer bills was raised to $6\frac{1}{2}$ per cent., the rate on bills of exchange remaining at 6 per cent.; and this restriction remained in force till the present shutting. It is now 6 per cent. In addition to those restrictions, I may state that the Governors have placed certain restrictions upon the business conducted through the discount brokers. In their business with them, when it suited the convenience of the Bank to have only short bills, they have limited their advances to the discount brokers to 30 days, or have insisted upon their bringing in bills not having more than 30 days to run; the object being to obtain such a command of resources constantly returning to the Bank reserve as should keep the Bank safe in that respect."

13. Down, therefore, to the close of the inquiry of 1857, the Bank of England had continued, under the Act of 1844, to conduct its business without difficulty. The rate of discount had been raised, and the *échéance* of bills shortened, as the drain for bullion appeared to the Directors to render these measures necessary from time to time. But neither the failure of the silk crop in Italy, with the bad harvests in France and other parts of Europe, and the commercial drain thence arising, nor the requirements of specie for the military service, nor both these causes combined, had occasioned any important derangement of our monetary system.

The course of trade may be collected from the exports of the years referred to, viz.:—

								£
1852	.	.	.	.	.	.	.	78,076,000
1853	.	.	.	.	.	.	.	98,933,000
1854	.	.	.	.	.	.	.	97,184,000
1855	.	.	.	.	.	.	.	95,688,000
1856	.	.	.	.	.	.	.	115,826,000
1857	.	.	.	.	.	.	.	122,155,000

These exports do not include shipments of stores in Government transports.

14. In the earlier part of the autumn of last year, the trade of the United Kingdom was generally considered to be in a sound and healthy state, and in the words of the Governor of the Bank, in reply to the following question:—

"Was there, in the month of August, any circumstance which caused you to be apprehensive of any reason for raising the rate of discount?—Not in the month of August; things were then pretty stationary; the prospects of harvest were very good; there was no apprehension that commerce

at that time was otherwise than sound. There were certain more far-seeing persons who considered that the great stimulus given by the war expenditure, which had created a very large consumption of goods imported from the East and other places, must now occasion some collapse, and still more those who observed that the merchants, notwithstanding the enhanced prices of produce, were nevertheless importing, as they had done successfully in the previous years. But the public certainly viewed trade as sound, and were little aware that a crisis of any sort was impending, far less that it was so near at hand."

15. In this state of things, the bullion standing at 10,606,000*l.*, the reserve at 6,296,000*l.*, and the minimum rate of discount at $5\frac{1}{2}$ per cent., the Bank, on the 17th of August 1857, commenced a negotiation with the East India Company, which ended in a shipment of 1,000,000*l.* in specie for the East. The general aspect of affairs continued without change until the 15th September, when the first tidings arrived of the great depreciation of railway securities in the United States, and immediately afterwards of the failure of a very important corporation, called the Ohio Life and Trust Company. Before the 8th of October the tidings from America had become very serious: news of the suspension of cash payments by the banks in Philadelphia and Baltimore was received; cotton bills were reduced to par, and bankers' drafts to 105; railroad securities were depreciated from 10 to 20 per cent.; the artisans were getting out of employment; and discounts ranged from 18 to 24 per cent. The transactions between America and England are so intimate and so large, the declared value of British and Irish produce exported in 1856 to the United States having been 21,918,000*l.*, while the amount of securities held by English capitalists in America was by some persons estimated at 80,000,000*l.*, that this serious state of commercial disorder there could not but produce in this country great alarm.

16. In New York, sixty-two out of sixty-three banks suspended their cash payments. In Boston, Philadelphia, and Baltimore the banks generally did the same. The effect of the American calamity fell with the greatest weight upon the persons engaged in trade with that country, and Liverpool, Glasgow, and London naturally exhibited the first evidences of pressure. On the 27th October the Borough Bank of Liverpool closed its doors, and on the 7th November the great commercial house of Messrs. Dennistoun & Co. suspended payment. The Western Bank of Scotland failed on the 9th November, and on the 11th the City of Glasgow Bank

suspended its payments, which it has since resumed. The Northumberland and Durham District Bank failed on the 26th; and on the 17th the Wolverhampton Bank for a time suspended payment.

17. Great alarm naturally prevailed in London, the centre of all the monetary transactions of the world. Vast sums deposited with the joint-stock banks, at interest, and employed directly by themselves, or by the bill-brokers, in addition to other moneys deposited by their other customers, were chiefly held at call; and the bill-brokers are stated to have carried on their enormous transactions without any cash reserve, relying on the run off of their bills falling due, or, in extremity, on the power of obtaining advances from the Bank of England on the security of bills under discount. The inevitable result of this system, at a time of commercial pressure and alarm, was, that the banks limited their discounts almost exclusively to their own customers, and began to add to their reserves, both in their own tills and at the Bank of England. It is well known that a periodical disturbance in the reserve of notes at the Bank of England regularly occurs at the time when the dividends upon the National Debt are paid. Interesting information will be found in the evidence of 1857 as to the effect of this disturbance in aggravating the panic of 1847. It had no such effect last year. By the 24th October that periodical disturbance was at an end. The public deposits also were in a satisfactory state, amounting to 4,862,000*l*. It is interesting to observe, with regard to the private deposits, that the causes to which your Committee have above referred, as affecting other bankers, tend to increase the balances in the Bank of England—the bank of last resort at a time of panic. Thus, for example, the deposits of the London bankers, which, in ordinary times, average about 3,000,000*l*., continued to rise during the commercial pressure, and amounted on the 12th November to 5,458,000*l*. The bill-brokers were compelled to resort to that establishment for assistance; and that to so great an extent, that the principal house went to the Bank to ask whether they could obtain discount to an indefinite amount, and actually received on one day, the day on which the Treasury letter was issued, no less a sum than 700,000*l*. Two discount houses failed. Speaking of the general discount market, the Governor of the Bank stated: “Discounts almost entirely ceased in London, except at the Bank of England.”

18. It is manifest, therefore, that in this emergency every-

thing depended on the Bank of England; and it appears to your Committee that the proceedings of that establishment were not characterised by any want of foresight or of vigour. On the 16th July, however, before any indications of the coming storm were visible in any quarter, the bullion read 11,242,000*l.*, the reserve 6,408,000*l.*, the discounts and advances 7,632,000*l.*; and the Directors reduced the rate of interest from 6 to $5\frac{1}{2}$ per cent. On the 8th October, after the receipt of the American intelligence above referred to, the bullion was 9,751,000*l.*, the reserve 4,931,000*l.*, the discounts and advances 11,648,000*l.*, and the rate of interest was raised again to 6 per cent. Four days afterwards the rate was raised to 7.

The causes of this step are thus stated by the Governor:—"Then four days afterwards there was another change?—Yes, on the 12th. After having raised the rate to 6 per cent., we thought it necessary to give a guarded caution to our agents, showing that we began to be a little uneasy. The rate at Hamburg was $7\frac{3}{4}$; American discounts then were greatly higher. We also, about that time, were made aware that the East India Company would want 1,000,000*l.* specie for shipment. The gold was then being taken for New York; we consequently raised the rate of interest, under those circumstances, to 7 per cent."

"The bullion which was wanted for the East, being silver, was to be purchased by the export of gold; that gold to be exchanged for silver upon the continent of Europe, which silver was to be sent to the East?—That was the effect of it; the exports to India were very large each month; but as they were in silver, of course that silver had to be purchased on the Continent, or imported from America."

"I think it was about the 12th of October that you were first apprehensive about the Western Bank of Scotland?—Yes; we had no direct application at that time, but there were rumours, and we had intimations which made us aware that they were in difficulties."

19. On the 19th October, the news from America continuing still more unfavourable, there were numerous failures in this country. The bullion had gone down to 8,991,000*l.*, and the reserve to 4,115,000*l.*, and the rate of interest was raised to 8 per cent. At this time the Bank of France, which in one week had lost a million sterling, raised the rate to $7\frac{1}{2}$; Hamburg, to 9. 300,000*l.* in gold had left Liverpool for America.

20. At this juncture negotiations took place for sustaining

the Borough Bank of Liverpool and the Western Bank of Scotland, which eventually failed, under the circumstances related by the Governor of the Bank.

21. There was great uneasiness out of doors (i. e. in London), and the Bank had an application from the principal discount house for an assurance that, if it was necessary, the bank of England would give them any loans they might require. That application was made on the 28th October. There were also inquiries for assistance from other Scotch banks; and on the 30th October there was an express for 50,000 sovereigns for a bank in Scotland, part of 170,000*l.*; and 80,000*l.* for Ireland. The first shipment of silver by the East India Company then took place. Under these circumstances, the rate of discount was raised on November 5th to 9 per cent.

22. Between the 5th November and the 9th, an English bank received assistance from the Bank of England; the failure of Dennistoun's house for acceptances due upon nearly two millions occurred, and the Western Bank failed on the 9th. Failures in London were on the increase. At this time (as was natural) the purchases and sales of stock in the Funds were enormous. The transfers were much beyond what they had ever been before. The bullion had sunk to 7,719,000*l.*, and the reserve to 2,834,000*l.* On the 9th the rate was raised to 10 per cent.

23. On the 10th November, a leading discount house applied to the Bank of England for 400,000*l.* The Bank of France raised its rate to 8, 9, and 10 per cent. for the three different months. There was another English bank assisted. The City of Glasgow Bank suspended payment. The discounts for that day at the Bank of England rose to 1,126,000*l.* The demand for Ireland was recommencing, and on the 10th and 11th alone the gold sent to Scotland was upwards of 1,000,000*l.* On the 11th, Sanderson & Co., the large bill-brokers, stopped payment; their deposits were supposed to be 3,500,000*l.* There was also an additional supply of gold required for the banks in Scotland. On the 12th the discounts at the Bank exceeded 2,000,000*l.* The following figures sufficiently exhibit the result of the foregoing operations, viz.:—

	Bullion.	Reserve.	Discounts and Advances.
	£ m.	£ m.	£ m.
10	7,411	2,420	14,803
11	6,666	1,462	15,947
12	6,524	581	18,044

24. The Government letter was issued on the 12th of November, and was in the following terms:—

“Downing Street, 12th November, 1857.

“GENTLEMEN,

“Her Majesty’s Government have observed with great concern the serious consequences which have ensued from the recent failure of certain joint-stock banks in England and Scotland, as well as of certain large mercantile firms chiefly connected with the American trade. The discredit and distrust which have resulted from these events, and the withdrawal of a large amount of the paper circulation authorised by the existing Bank Acts, appear to Her Majesty’s Government to render it necessary for them to inform the Directors of the Bank of England, that if they should be unable in the present emergency to meet the demands for discounts and advances upon approved securities without exceeding the limits of their circulation prescribed by the Act of 1844, the Government will be prepared to propose to Parliament, upon its meeting, a Bill of Indemnity for any excess so issued.

“In order to prevent this temporary relaxation of the law being extended beyond the actual necessities of the occasion, Her Majesty’s Government are of opinion that the Bank terms of discount should not be reduced below their present rate.

“Her Majesty’s Government reserve for future consideration the appropriation of any profits which may arise upon issues in excess of the statutory amount.

“Her Majesty’s Government are fully impressed with the importance of maintaining the letter of the law, even in a time of considerable mercantile difficulty; but they believe that, for the removal of apprehensions which have checked the course of monetary transactions, such a measure as is now contemplated has become necessary, and they rely upon the discretion and prudence of the Directors for confining its operation within the strict limits of the exigencies of the case.

“We have, &c.,

(Signed)

“PALMERSTON.

“G. C. LEWIS.

“To the Governor and Deputy-Governor of
the Bank of England.”

25. Whatever effect this letter may have had in other ways in calming the public mind, and so tending to mitigate the

severity of the pressure, it did not immediately diminish the demand for discounts and advances. This continued to increase until 21st November, on which day the Bank had advanced in discounts 21,600,000*l.*, a sum exceeding the whole amount of their deposits, both public and private; a sum nearly three-fold the amount of their advances in July, when the rate was reduced to 5½ per cent., and more than double what they had advanced on the 27th October, when the first bank failed. Half of these loans were made to the bill-brokers, and were partly made upon securities which, under other circumstances, the Bank would have been unwilling to accept. They were made for the purpose of sustaining commercial credit in a period of extreme pressure.

26. The letter was issued on the 12th November, but whilst in 1847 it was not found necessary for the Bank Directors to avail themselves of the permission so given them to exceed the limits imposed by law, that necessity in this instance actually arose. An issue to the extent of 2,000,000*l.* beyond the legal issue was made to the banking department. The following account shows the sums actually issued from the Bank to the public:—

An ACCOUNT showing the EXTENT to which the BANK of ENGLAND availed itself of its POWER, under the AUTHORITY of GOVERNMENT, to issue NOTES to the PUBLIC beyond the LIMIT allowed by the ACT of 1844.

*Notes Issued to the Public on Securities, beyond the Statutory Limit of 14,475,000*l.**

1857, November 13	.	.	.	.	£186,000
„ 14-15	.	.	.	.	622,000
„ 16	.	.	.	.	860,000
„ 17	.	.	.	.	836,000
„ 18	.	.	.	.	852,000
„ 19	.	.	.	.	896,000
„ 20	.	.	.	.	928,000
„ 21-22	.	.	.	.	617,000
„ 23	.	.	.	.	397,000
„ 24	.	.	.	.	317,000
„ 25	.	.	.	.	81,000
„ 26	.	.	.	.	243,000
„ 27	.	.	.	.	342,000
„ 28-29	.	.	.	.	184,000
„ 30	.	.	.	.	15,000
Average of 18 days, 488,830 <i>l.</i>					

27. The causes which, in the judgment of the Bank

Directors, immediately led to this result, are thus stated by them in their correspondence with the Treasury, laid before Parliament in December last: —

“On the 5th November the reserve was 2,944,000*l.*, the bullion in the issue department 7,919,000*l.*, and the deposits 17,265,000*l.* The rate of discount was advanced to 9 per cent., and on the 9th November to 10 per cent.

“The continental drain for gold had ceased, the American demand had become unimportant, and there was at that time little apprehension that the Bank issues would be inadequate to meet the necessities of commerce within the legalised sphere of their circulation.

“Upon this state of things, however, supervened the failure of the Western Bank of Scotland and the City of Glasgow Bank, and a renewed discredit in Ireland, causing an increased action upon the English circulation, by the abstraction in four weeks of upwards of two millions of gold, to supply the wants of Scotland and Ireland; of which amounts more than one million was sent to Scotland, and 280,000*l.* to Ireland, between the 5th and 12th November.

“This drain was in its nature sudden and irresistible, and acted necessarily in diminution of the reserve, which on the 11th had decreased to 1,462,000*l.*, and the bullion to 6,666,000*l.*

“The public became alarmed; large deposits accumulated in the Bank of England; money-dealers having vast sums lent to them upon call, were themselves obliged to resort to the Bank of England for increased supplies; and for some days nearly the whole of the requirements of commerce were thrown on the Bank. Thus, on the 12th, it discounted and advanced to the amount of 2,373,000*l.*, which still left a reserve at night of 581,000*l.*

“Such was the state of the Bank of England accounts on the 12th, the day of the publication of the letter from the Treasury. The demand for discounts and advances continued to increase till the 21st, when they reached their maximum of 21,616,000*l.*

“The public have also required a much larger quantity of notes than usual at this season, the amount in their hands having risen on the 21st to 21,554,000*l.*”

28. The Treasury letter was the subject of discussion in the House, and an Act of Indemnity having passed, your Committee do not feel called upon to say more than that the evidence appears to them to show that the discretion of the Government was properly exercised.

29. Your Committee will now state to the House the general outline of commercial disaster, as it occurred in the United Kingdom.

30. The first occurrence in this country which caused alarm was the failure of the house of Macdonald & Co. of Glasgow and London, which took place in October, and was accompanied by the failures of Monteith & Co. and Wallace & Co. of Glasgow. The house of Macdonald employed a great many workpeople in sewing muslin goods for the home trade and for the American market, and this they carried on to a very large extent. They had been in fair credit till very nearly the time of their failure; but shortly before that period they are described as having given out that they had changed their mode of doing business for the purpose of embracing a wider field. This, however, is represented as having been a deception, intended to cover a system to which they had recourse, of drawing fictitious bills, and to give to these bills the appearance of genuine business transactions. From the records of the public tribunals, it appears that a very considerable number of persons (one of the partners is said to have admitted as many as seventy-five) in London and other places were employed by this firm, for a small commission, to put their names to fictitious bills, which were then discounted, a large proportion of them in Glasgow; and when the house of Macdonald failed it was found to be indebted to the Western Bank 422,000*l*.

31. The house of Monteith & Co. was indebted to the same bank 537,000*l*.; that of Wallace & Co. 227,000*l*.

32. The house of Messrs. Dennistoun & Co. stopped payment on November 7; it is expected to pay its liabilities in full, and its members bear the highest character. But it can occasion no surprise that, on the occurrence of such a crisis as that which took place in America last year, a house, with debts owing to it from that country of nearly two millions, losing at the same time 300,000*l*. by the failure of the Borough Bank of Liverpool, of which the partners were shareholders, should, at a juncture when general alarm prevailed, have been obliged to suspend its payments.

33. During the month of October there was a very great gloom in Glasgow, occasioned by the commercial panic in America, Glasgow being very intimately connected in trade with America, with New York particularly.

This section states that the "Western Bank closed on the 9th November, at two o'clock." "The City of Glasgow Bank did not open on Wednesday, the 11th." Great excitement

prevailed, and "Troops were sent for by the authorities, who were afraid of some disturbance."

"In accordance with the provisions of the Act of 1845, the banks held a considerable quantity of gold, but they were under the necessity of having more gold from London." "Had it (the arrival of the gold) any effect in regard to the panic?"—Mr. Robertson, the manager of the Union Bank, replies, "I should think it must have had an effect; the people saw there was gold there to pay them if they wanted it; but by the Thursday morning the panic was entirely allayed; it entirely ceased on the Wednesday afternoon, about two o'clock; at half-past two, I do not think there were half a dozen people in our establishment."

"Had the notes of the Western Bank begun to be taken in the course of the Wednesday?—Yes."

"And at two o'clock on the Wednesday afternoon you consider that the panic had come to an end?—Quite."

"And on the Thursday the Government letter was issued?—Yes, I believe so."

34. It has been observed that the panic in Glasgow had ceased before the Treasury letter was issued, and that the demand at the Bank of England for advances and discounts did not cease with the publication of that letter; after which date it cannot of course be attributed to any fear that there was a limit to the quantity of bank notes. On the contrary, we have seen that the advances by discount kept rising continually, and though the rate of 10 per cent. was still maintained, they rose from 15,900,000*l.*, at which they stood on the day preceding the issue of that letter, to 21,600,000*l.* on the 21st of November. It is obvious, therefore, that the principal causes of the commercial crisis of 1857 must be sought elsewhere. That calamity cannot be attributed exclusively or chiefly to panic occasioned by the operation of the Act of 1844. Since, too, the difficulties here experienced took their origin from America, where no such law is in force, and that crisis was felt in still greater severity than here by countries in the North of Europe, whose currency is regulated by laws widely different from ours, it remains for your Committee to inquire whether any cause or causes, common to all those countries, and sufficient to account for the occurrence of commercial disasters in them all respectively, have been disclosed by the evidence.

35. For a general review of the failures which occurred in England, your Committee have been indebted to Mr. Coleman, and to Mr. Ball, of the firm of Messrs. Quilter and

Ball, both eminent accountants in London. These gentlemen do not profess to have studied abstruse questions of currency; they do not represent themselves as particularly conversant with the operation of the Act of 1844. They, however, assign what appears to your Committee an adequate cause for the recent commercial crisis. Availing themselves of their experience in 1847, the affairs of which have now been finally closed, to illustrate the transactions of 1857, which still appear in estimate, and are therefore liable to correction, they ascribe the calamities of both periods to the same principal cause, viz., the great abuse of credit, and consequent over-trading. They notice also this difference between the two periods: many of the houses which fell in 1847, they say, had once been wealthy, but had long ceased to be so. Those of 1857 had, with few exceptions, never possessed adequate capital, but carried on extensive transactions by fictitious credit.

Mr. Coleman adduces an instance of a firm, originally wealthy, having failed and paid ultimately a dividend of only 9*d.* in the pound; and he says, that the estates which came under his notice as insolvent in 1847 paid generally very small dividends, not averaging more than 4*s.*

36. Another example of the same period is described by Mr. Ball as follows:—It was that of a house which failed in 1847; they were engaged very largely as merchants in this country, and they were a house of very old standing. After an interval of ten years this house has, within the last few months, paid a final dividend, making a total of 1*s.* 10*d.* in the pound.

Mr. Ball is asked:—

“Looking back to the experience of the year 1847, were the dividends that were paid by the insolvent houses generally very small?—The average dividend would be small, as far as I recollect. Here and there there would be a house which would pay in full, or would pay a very large dividend; but the general result was, that a small dividend upon the whole was received by the creditors.”

“Looking back now, with your experience, to the results of 1847, is it your opinion that if the law had afforded greater facilities for obtaining credit at that time for the purpose of sustaining these houses longer, the result would have been more advantageous to the houses themselves, or to the community at large?—Knowing what I do of the internal state of those houses when they did stop, I should say that had they been able to obtain further credit for a continued period of time, it would only have had a temporary effect upon their

position, and that most of them (of course I have a reserve of some good cases in my mind), from their internal condition being worn out, and from the want of real capital in their concerns, must have failed ultimately, and the longer the assistance was continued simply upon their credit, the greater the ultimate loss would be."

"Such is your view of the failures that took place in 1847, speaking generally?—That is my view."

37. Your Committee have thought it not irrelevant to place on record these instances, which it was not in the power of their predecessors in 1848 to give, because they furnish an instructive example how readily misfortunes are at the time attributed by the sufferers, and others sympathising with them, to the operation of statutory enactments—which misfortunes, upon a full review of all the circumstances attending them, it is obvious that no wisdom of the Legislature, no regulation of the currency, could have prevented.

38. Your Committee have before them the particulars of thirty houses which failed in 1857. The aggregate liability of these houses is 9,080,000*l.*; of this sum the liabilities which other parties ought to provide for amount to 5,215,000*l.*, and the estimated assets 2,317,000*l.* Besides the failures which arose from the suspension of American remittances, another class of failures is disclosed. The nature of these transactions was the system of open credits which were granted; that is, by granting to persons abroad liberty to draw upon the house in England to such extent as had been agreed upon between them; those drafts were then negotiated upon the foreign exchanges, and found their way to England, with the understanding that they were to be provided for at maturity. They were principally provided for, not by staple commodities, but by other bills that were sent to take them up. There was no real basis to the transaction, but the whole affair was a means of raising a temporary command of capital for the convenience of the individuals concerned, merely a bare commission hanging upon it. A banker's commission was all that the houses in England got upon those transactions, with the exception of receiving the consignments, probably of goods, from certain parties, which brought them a merchant's commission upon them; but they formed a very small amount in comparison with the amount of credits which were granted. One house at the time of its suspension was under obligations to the world to the extent of about 900,000*l.*; its capital at the last time of taking stock was under 10,000*l.* Its business was chiefly the granting of

open credits, i.e., the house permitted itself to be drawn upon by foreign houses without any remittance previously or contemporaneously made, but with an engagement that it should be made before the acceptance arrived at maturity. In these cases the inducement to give the acceptance is a commission, varying from $\frac{1}{2}$ to $1\frac{1}{2}$ per cent. The acceptances are rendered available by being discounted, as will appear hereafter, when the affairs of the banks which failed come under our notice.

39. The obvious effect of such a system is first unduly to enhance, and then, whilst it continues, to sustain, the price of commodities. In 1857, that fall of prices which, according to Mr. Neave, far-seeing people had anticipated, actually occurred. Tables have been put in, by more than one of the witnesses, exhibiting an average fall of 20 or 30 per cent., in many instances much more, upon the comparison of July 1857, with January 1858. It needs no argument to prove what effect such a fall must have upon houses which had accepted bills, on the security of produce consigned, to the extent of one hundred times the amount of their own capital. The witness says:—

“ In the case which you are now describing to the Committee, these transactions had gone on to the extent of 900,000*l*. The real guarantee was partly produce and partly bills of exchange; to whatever extent that produce was depreciated, of course the liability of the firm to failure would arise, and the capital of that firm to meet such depreciation of produce was about one hundredth part of the whole of their liabilities? — That is so.”

“ Do you consider that case to be a fair illustration of the recent commercial disasters which have occurred? — I think it is; though I should mention that in some cases the proportion of capital possessed was larger than that which I have mentioned.”

“ In some cases also perhaps it might be smaller?—In some considerably smaller. In some cases I have known houses come under very large obligations who had really no capital at all.”

40. This practice appears to have grown up of late, and to be principally connected with the trade of Sweden, Denmark, and other countries in the north of Europe. One house at Newcastle is described as conducting, before 1854, a regular trade in the Baltic. They were not great people, but were respectable people, and were doing a moderately profitable trade. They unfortunately entered upon this

system of granting credits ; and in the course of three years the following result ensued—viz., in 1854 their capital was between 2,000*l.* and 3,000*l.* ; in 1857 they failed for 100,000*l.*, with the prospect of paying about 2*s.* in the pound.

41. For other instances of this abuse of credit your Committee refer to the evidence, concurring entirely in the opinions expressed by the witnesses, that the great abuse of credit is a feature common to the two years 1847 and 1857, and has been, in their judgment, the principal cause of the failures that took place in those years.

Mr. Coleman says:—

“ Speaking generally with regard to 1847 of which your experience is now complete, are you prepared to say that the failures which occurred in that year were owing to any imperfection of the law, by which the facilities for obtaining credit were unduly curtailed?—No.”

“ With regard to the year 1857, what would your answer be to the same question?—That every house which applied and deserved assistance received it.”

“ From whence?—From the Bank of England, as far as I know ; and more, that in the case of two houses which came under my personal control, I applied to know whether they could have assistance, and the answer was, yes. Guarantees were obtained to the amount required for one house ; but I found that I could not advise their being used. The applications, when made by me, were immediately responded to by the Bank of England.”

“ The alteration of your opinion, I suppose, arose from the fact of further investigation into the state of solvency of the concern?—And the continued bad intelligence from the north of Europe with regard to failures.”

“ The failures of their correspondents in the north of Europe also being communicated?—Yes.”

42. The commercial crisis was very little felt in Ireland until the failure of some of the banks in England and Scotland. The trade of Ireland, with the exception of that of Belfast, being little connected with the United States, did not feel directly the effect of the failures there ; but when failures began to take place at home, there was an internal pressure consequent upon them, which, about the early part of the month of November, manifested itself severely in a demand for gold by depositors and holders of notes, and there was a run on the savings' banks. The Bank of Ireland advanced to the banks in Ireland requiring gold to the extent of about 250,000*l.* ; and they were

obliged to draw from the Bank of England from 1,000,000*l.* to 1,200,000*l.* besides. Belfast has a large trade with the United States, as well as a constant intercourse with Scotland; but there was no alarm until the time of the Scotch bank failures. There was then what had never been known before in Belfast since the institution of the joint-stock banks — a considerable run for gold in exchange for their notes. But the amount of gold which they held under the Act of 1845 was a source of strength. The banks appear to be well constituted, and no serious results ensued.

43. In London no bank failed. In Liverpool the Borough Bank, in Glasgow the Western Bank of Scotland, in Newcastle the Northumberland and Durham District Bank, failed in the months of October and November last. The City of Glasgow and Wolverhampton Banks suspended payment, but have since resumed.

44. Your Committee have examined Mr. Joshua Dixon, who, in August 1857, first assumed the post of managing director of the Borough Bank; Mr. Fleming, who has been, since July 1857, assistant manager, manager or liquidator, of the Western Bank of Scotland; and Mr. Kirkman Hodgson, a member of the House, and Director of the Bank of England, who, being well acquainted with the trade of Newcastle, went to that town in November for the purpose of ascertaining how far it was right that the Bank of England should give assistance to the Northumberland Bank.

45. The state of these three banks at the time of their failure may be collected from the following summary, viz. :—

It may be sufficient to state from this section of the Report, respecting the Borough Bank:—

“In 1847 the Borough Bank was under the necessity of obtaining assistance from the Bank of England. When the commercial crisis showed itself, from the unsound position of the bank, it was in imminent danger, and application was made to the Bank of England for assistance between the 20th and the 23rd of October. The position, in general terms, of the bank was, that its assets were all locked up and unavailable, and that some 600,000*l.* or 700,000*l.* of its assets or claims on its debtors, which had until a short time previously been considered good, could not be relied upon, even for ultimate realisation. About 3,500,000*l.* bills were at that time in London under the indorsement of the Borough Bank of Liverpool, of which from 700,000*l.* to 1,000,000*l.* had no negotiable validity at all, except the indorsement of the Borough Bank of Liverpool.”

46. After stating that a run had taken place on the Borough Bank in Liverpool on the 27th October, and the doors of the bank were closed, this section of the Report proceeds: "The dividend of this bank, which had previously been 7 per cent., had at the last meeting, held on 10th July, 1857, been reduced to 5; and a sum of 165,000*l.* was, on the face of the Report, acknowledged to have been lost. The total loss, so far as the witness could estimate it, amounted to 940,000*l.*, being the total capital of the bank. It is ascribed, not to advances improperly made to favoured persons, but to want of discretion in the management."

47. The Western Bank of Scotland was founded in 1832. In 1834 it was already in difficulties, and their correspondents in London dishonoured their bills. They applied to the other banks for assistance, and received it, upon certain conditions. In 1847 the Western Bank was again in difficulties, and was assisted by the Bank of England, receiving an advance of 300,000*l.* When it failed on 9th November, 1857, it appeared that the four insolvent houses of Macdonald, Monteith, Wallace, and Pattison were indebted to it in the sum of 1,603,000*l.*, the whole capital of the bank being only 1,500,000*l.* One of the conditions of the co-partnery was, "That if it shall at any time appear, on balancing the company's books, that a sum equal to 25*l.* per centum on the advanced capital stock of the company has been lost in prosecution of the business of the company, such loss shall, *ipso facto*, and without the necessity of any further procedure, dissolve and put an end to the company."

48. Mr. Fleming became assistant manager in July 1857, and at once examined the affairs. He estimated that, even supposing the debts of these four houses (which had not yet become insolvent) were assumed to be good, there appeared on the face of the books as good assets 573,000*l.* of bad debts; and deducting the rest and guarantee fund, which then amounted to 246,000*l.*, there remained an apparent deficiency or encroachment on the capital of the bank of 327,000*l.* This of itself nearly approached the limit which dissolved the partnership, and put an end to the existence of the board; and of this state of affairs Mr. Fleming believes that up to that time the Directors were in a state of almost entire ignorance. From a confidential paper, having marks upon it in the handwriting of the then manager, it appears that a sum of 260,000*l.* was reported to him as irrecoverable on one branch of the assets, which nevertheless appeared as good assets in the published balance sheet. The dividend

was raised in 1854 from 7 to 8 per cent., and in 1856 to 9. Nine per cent. was the dividend declared in June 1857, at which date a very slight acquaintance with the books must have led to the strongest suspicion, not to say to the clear conviction, that for some time a considerable portion of the capital had been lost.

49. This bank had 101 branches throughout Scotland. It had connexions in America, who were allowed to draw upon it for the mere sake of the commission. At home, it made advances upon "indents," or, in other words, provided the manufacturer with the capital with which yet unmade cloth was thereafter to be produced. Its discounts, which in 1853 were 14,987,000*l.*, had been increased in 1857 (till 9th November) to 20,691,000*l.* With what care this business was conducted may appear from the circumstance that Macdonald's bills were accepted by 124 different parties: that only 37 had been inquired about, and in the case of 21 the reports received from the correspondents of the bank were unsatisfactory or positively bad. Yet the credit given to Macdonald continued undiminished. The rediscounts of the bank in London, which in 1852 had been 407,000*l.*, rose in 1856 to 5,407,000*l.* The exchanges of notes in Edinburgh have been always against the Western Bank, and, for an average of the last six years, to an extent of not less than 3,000,000*l.* a year. This circumstance is accounted for by Mr. Fleming chiefly by reference to the nature of the transactions with Macdonald's and other houses in accommodation bills; 988,000*l.* were due to the bank from its own shareholders.

50. About the end of October the Northumberland and Durham Bank applied for assistance to the Bank of England. It was declined, as they could not give any satisfactory explanation of their real position. They applied a second time, and this section relates the steps taken by the Bank of England; and that, upon consideration of all the circumstances, they judged it expedient to make such temporary advances as the emergency required, to prevent the confusion that might arise from workmen not receiving their wages.

"This Bank had derived assistance from the Bank of England in the former crisis of 1847. Almost exactly the same circumstances arose then which arose in 1857, and almost from the same cause."

"The whole of the advance made in 1847 was repaid to the Bank of England, was it not? — Yes."

The Derwent Iron Company was intimately connected with this bank, and "the total liability for which the Derwent Iron Company is indebted to the bank is about 947,000*l.*, very nearly 1,000,000*l.*"

"It appears that the concern (the Derwent Iron Company) has been worked extremely badly; that it has never made any profits at all, even in the very finest years for the ironmasters, and it has gone on absorbing the money of the bank, unchecked by the Directors."

"The assets, which were estimated in November at 2,500,000*l.*, had fallen in January to 2,000,000*l.*; and there was one peculiarity, which was, that while the debt of the Derwent Iron Company was taken as an asset in November at 750,000*l.*, in January it was taken as an asset at 947,000*l.*, and that is an asset of a very doubtful nature. The position of the bank is much worse in reality than is shown by the statement of the figures."

51. This disclosure was the result of an examination which lasted about two hours; yet the bank had declared, at the last half-yearly meeting, a dividend of 7 per cent., making to the shareholders a statement, the substance of which showed a very prosperous state of things. Mr. Hodgson mentions that he remarked on the fact of their having declared a dividend in June, when it was admitted that half the capital was lost, and he asked how they could have done so. It was stated, in reply, that there were so many persons who depended entirely for their livelihood on the dividends received, that they really could not bear to face them without paying any dividend.

52. Each of these three banks had been in peril in 1847, and though, by the assistance of the Bank of England, they were enabled to surmount it, they fell, on the next occasion of severe commercial pressure, under circumstances still more injurious both to their own proprietors and to the public. Two bill-broking houses in London suspended payment in 1847; both afterwards resumed business. In 1857 both suspended again. The liabilities of one house, in 1847, were, in round numbers, 2,683,000*l.*, with a capital of 180,000*l.*; the liabilities of the same house, in 1857, were 5,300,000*l.*, the capital much smaller, probably not more than one-fourth of what it was in 1847. The liabilities of the other firm were between 3,000,000*l.* and 4,000,000*l.* at each period of stoppage, with a capital not exceeding 45,000*l.*

53. These five houses contributed more than any others

to the commercial disaster and discredit of 1857. It is impossible for your Committee to attribute the failure of such establishments to any other cause than to their own inherent unsoundness, the natural, the inevitable result of their own misconduct.

54. Thus we have traced a system under which extensive fictitious credits have been created by means of accommodation bills and open credits, great facilities for which have been afforded by the practice of joint-stock country banks discounting such bills, and rediscounting them with the bill-brokers in the London market, upon the credit of the bank alone, without reference to the quality of the bills otherwise. The rediscounter relies on the belief that if the bank suspend, and the bills are not met at maturity, he will obtain from the Bank of England such immediate assistance as will save him from the consequences. Thus Mr. Dixon states, "In incidental conversation about the whole affair, one of the bill-brokers made the remark, that if it had not been for Sir Robert Peel's Act, the Borough Bank need not have suspended. In reply to that, I said that whatever might be the merits of Sir Robert Peel's Act, for my own part, I would not have been willing to lift a finger to assist the Borough Bank through its difficulties, if the so doing had involved the continuance of such a wretched system of business as had been practised; and I said 'If I had only known half as much of the proceedings of the Borough Bank while I was a Director' (referring to the time previous to the 1st of August, when I became a managing Director), 'as you must have known, by seeing a great many of the bills of the Borough Bank discounted, you would never have caught me being a shareholder.' The rejoinder to which was, 'Nor would you have caught me being a shareholder; it was very well for me to discount the bills, but I would not have been a shareholder either.'"

55. It will be instructive now to turn to the North of Europe, to survey the condition of countries where, as in Hamburg, the currency is exclusively metallic, and to compare the state of things there with that which existed here under the laws which regulate the currency in this kingdom.

56. In Hamburg, on the 23rd of November, commercial confidence is stated to have been entirely at an end; so that only the bills of three or four of the first houses were negotiable at the highest rate of discount. In the first instance, some of the leading houses and the banks origi-

nated a plan for relief, viz., the subscription of about 1,000,000*l.*, and the appointment of a committee to give, by indorsement, the credit of this fund to the current bills. At first it seemed that confidence was much restored; but in two days this hope vanished; and on the 25th the aspect of affairs was again very gloomy. On the 27th a meeting of the *Bürgerschaft* was held, and a new arrangement was proposed by the Senate for the issue of Government bonds, on the deposit of goods, funds, and shares, to the amount of 1,125,000*l.* On the following day the feeling of the Exchange was better, in consequence of this Government measure, and of the arrival of considerable quantities of silver. Yet, on the 1st of December our Consul writes, "The embarrassments of the mercantile community here still continue undiminished;" and on the 3rd, "There is no deficiency of silver in the Hamburg Bank; indeed, the amount in the cellars of the bank is now much larger than it has been at any former period; but a total want of confidence prevents its holders from parting with it." The Government bonds could not be discounted. A loan was ultimately obtained from Vienna; but even the arrival of the amount in specie failed to produce the desired effect, until the Senate reluctantly proposed that it should be intrusted to a secret committee, to be by them lent out on good security. On December 12, so soon as it was known that, by the aid of the Government, the leading houses would fulfil their engagements, the panic ceased. Money at once became abundant, and in about a fortnight the rate of discount for the best bills fell to 2 and 3 per cent.

57. The information on this subject, relating to the different countries in the North of Europe, which will be found in the Appendix, is most instructive. It shows the severity of the disaster there sustained, and also that the real origin of it was the undue expansion of commercial credit; and it confirms the proof that no system of currency can secure a commercial community against the consequences of its own improvidence.

58. In this place it may be convenient to notice two points on which considerable misapprehension appears to have prevailed. It is contended by some persons that the separation of the issue department by a local change, removing the office from the Bank premises, would have the beneficial effect of convincing the community that the law now regulates the issue of notes, and leaves to the discretion of the Bank Directors the purely banking business

only. But strong evidence is given by the Bank Directors that much practical inconvenience would result from such a change; and your Committee think that repeated discussion and increasing knowledge will satisfy the public of a fact so obvious as this, viz., that without the interposition of the Executive Government, the Directors of the Bank of England have no power whatever to exceed in their issues the limit imposed by law. The duties which the Bank discharges in this respect are purely ministerial, unaccompanied by any discretionary power. Whoever discharged these duties, it would be equally subservient to the general convenience of the public, that the place of issue should be in the immediate neighbourhood of the place where the banking department is situate. Able papers by Lord Monteagle and by Mr. Arbuthnot, on the subject of a State Bank, will be found in the Appendix.

59. Another misconception has often perplexed those who have reasoned about the currency—that of supposing that by Act of Parliament the price of gold is fixed. If it had so happened that our sovereign, instead of being nearly equal to a quarter of an ounce troy of gold of standard fineness, had been exactly equal to that weight, it would probably have been obvious to all that the word “sovereign” simply meant a quarter of an ounce of standard gold, with the Queen’s head stamped upon it by the Mint; and the price of gold, as it is called, being thus exactly 4*l.* an ounce, anybody would have comprehended that the one was equivalent to the other. The use of the silver and copper coins as representatives or tokens of fractional parts of that gold, would probably have been intelligible, and this troublesome confusion would not have arisen. This topic has not much presented itself in the course of the present inquiry. But it is desirable that all persons who take an interest in this subject should understand how simple is the duty discharged by the Executive Government in relation to that money, viz., gold money, which alone is the standard of value in this country, so far as the transactions of our extended commerce are concerned. At the Mint a piece of standard gold, weighing 5 dwts. 3·274 grains troy, is verified by a stamp, and being then called a sovereign, is returned to its owner, and in this process no seignorage is charged. At the Bank five times the same quantity is received into the coffers for custody, and in return a paper, called a 5*l.* note, is given to the owner of the gold. He is entitled, at his pleasure, to return the note, and demand for it sovereigns

which contain an equal quantity of bullion. Upon every ounce of gold that thus passes in and out of the Bank an allowance, for the double transaction, of about $\cdot 770,465$ grain troy weight of gold, or, as it is expressed in our copper tokens, $1\frac{1}{2}d.$, is retained by the Bank. This allowance is an equivalent for the loss of interest which it is computed the owner of the bullion saves by the transaction, inasmuch as he saves, by receiving notes from the Bank, the loss of time, and therefore of interest, which he would have incurred if he had taken his gold to the Mint to be coined into sovereigns. This allowance yields an annual profit, which is taken into account in the arrangements between the Bank and the Government. Your Committee have not entered into the question whether any charge should be made by the Mint for coinage. So intelligible and so simple is the relation between the Government and the issue of money — so entirely is the Bank of England excluded by statute from the exercise of any discretion whatever in this respect.

60. For the opinions of the most eminent writers on the subject of the currency, your Committee refer to the Evidence taken in 1857. It is interesting in the highest degree to all who make the scientific study of the most abstruse questions of political economy their pursuit. But a review of that Evidence would appear necessarily to involve subjects of controversy on which your Committee would not be able to arrive at any conclusion without much difference of opinion, and they are therefore desirous of excluding these subjects from their Report. That the public welfare in times of commercial disaster requires the maintenance of an adequate supply of bullion at the Bank, is the opinion of Mr. Tooke, Mr. Newmarch, and Mr. Mill, as well as of Lord Overstone, Mr. Norman, and Mr. Hubbard. That the supply necessarily maintained in the coffers of that establishment, under the provisions of the Act of 1844, is greater than that which was ever maintained under circumstances of pressure in former times, is a fact beyond dispute. During the crisis of 1825 the bullion fell to 1,261,000*l.*, in 1837, 3,831,000*l.*, and in that of 1839, 2,406,000*l.*; while the lowest points to which it has fallen since 1844 have been, in 1847, 8,313,000*l.*, and in 1857, 6,080,000*l.* That the opinion of the present Bank Directors is strongly in favour of maintaining the Act of 1844 appears in the Evidence. They say the assistance which they gave to the public would not have been ventured on by them except for the

Treasury letter; nor would they have ventured to act on that letter if the bullion had been much lower than it was; for they must then have begun to think of the convertibility of the note, which it would be their first duty to maintain. They attribute the maintenance of that amount of bullion to the regulations provided by the Act; and while they affirm that the present Court of Directors, having had more experience, and having seen the gradual working of the Act of 1844, would probably, in their discretion, have adhered closely to the very regulations which the Act required of them; yet, if they had not done so, but had been induced to issue more than the proportion which the law allowed, more gold would have gone out by the action of the foreign exchanges, and the consequences would have been that they would have been left with less gold as the panic came on; and then, even with the permission to issue more notes, they would not have felt warranted in hazarding the circulation by doing so. They further state that, for these reasons, it appears that the adoption of the policy which the Act now in force required, placed the Bank of England in such a position that it was enabled at the time of severest pressure to afford a larger aid to the commercial public than would otherwise have been in their power; that the true judgment of the Court would act in unison with the law; but yet it is not expedient to expose them to the influence of such a pressure as would inevitably be applied at such a time; and that, upon the whole, with a view to the operations of the Bank, including in that category their being able to afford aid to the commercial public at the time of severest pressure, the Act of 1844 operated, not as a fetter, but as a support, decidedly. They therefore recommend that no relaxation should be made in the provisions of that law.

61. In this opinion the Governor of the Bank of Ireland, the representatives both of the chartered and the unchartered banks of Scotland, the Chairman of the Association of Private Country Bankers, and Mr. Alderman Salomons, of the London and Westminster Bank, concur.

62. Those who advocate what is called the theory of the Act of 1844, are guided by the following principles:—They regard bank notes as being for every practical purpose, equally with the gold they represent, the money of the country—the measure of value—that which extinguishes debt—not as a mere form of paper credit depending on the credit of the issuer, and constituting only the evidence and vehicle for transfer of a debt which still continues. If complete

effect were given to their view, the result would be that for the whole United Kingdom there would be one description of note only, issued by the State, based on bullion in the custody of the State. This note, so secured by bullion, would be a legal tender everywhere, except at the place of issue. Experience having shown that even in the times when the paper circulation is most contracted, the sum in circulation with the public at large can never fall below a certain amount, and cannot therefore be presented to the Bank for payment in gold; they are satisfied that to this extent, so limited by experience, the actual deposit of bullion may safely be dispensed with, the notes in question resting on the security of the State. This is their justification for the permission accorded to the Bank of England to issue fourteen millions of notes without the deposit of a corresponding amount of bullion. They consider any addition to the circulating medium of the country to be the act of the private individual who carries bullion to the Mint to be coined, or to the department of issue to be exchanged for notes; fixing the standard of money, and verifying the conformity of the pieces therewith by either of these processes to be the duty of the State; the use of money, and that only, they regard as the province of a bank, whether of a private person or incorporation, or of the banking department of the Bank of England.

63. These advocates of the theory, as it is called, of the Act of 1844, are far from contending that their theory is completely carried into effect by the provisions of the Act. The origin of that legislation is thus referred to by Lord Overstone:—"I had no connexion, political or social, with Sir Robert Peel. I never exchanged one word upon the subject of this Act with Sir Robert Peel in my life, neither directly nor indirectly. I knew nothing whatever of the provisions of this Act until they were laid before the public; and I am happy to state that, because I believe that what little weight may attach to my unbiassed conviction of the high merits of this Act, and the service which it has rendered to the public, may be diminished by the impression that I have something of personal vanity in this matter. I have no feeling whatever of the kind. The Act is entirely, so far as I know, the Act of Sir Robert Peel, and the immortal gratitude of this country is due to him for the service rendered to it by the passing of that Act. He has never been properly appreciated; but year by year the character of that man upon this subject will be appreciated. By the

Act of 1819, Sir Robert Peel placed the monetary system of this country upon an honest foundation, and he was exposed to great obloquy for having so done. By the Act of 1844, he has obtained ample and efficient security that that honest foundation of our monetary system shall be effectually and permanently maintained; and no inscription can be written upon his statue so honourable as that he restored our money to its just value in 1819, and secured for us the means of maintaining that just value in 1844. Honour be to his name."

64. But it does not appear, by a reference to the speeches of Sir Robert Peel, that he propounded the two measures of 1844 and 1845 as measures of theoretical perfection; on the contrary, they can only be regarded as having been designed to accomplish a great practical object by the least possible disturbance of existing interests. Thus Mr. Rodwell:—"Then the general result of those interviews was to leave upon your mind the impression that the measure was intended to be a great step in advance towards the establishment of one central issue, which was to be arrived at by voluntary arrangement?—I thought that the tendency of the views of Sir Robert Peel was, that that would be a natural result; but I thought that his view was, that whether that consequence ensued or not, the arrangement was a continuing arrangement with the country bankers, in order that that Act might pass without any opposition on their part."

65. And Sir George Clerk, the Deputy Governor of the Bank of Scotland, who was Secretary of the Treasury in Sir Robert Peel's Administration in 1844, and Vice-President of the Board of Trade in 1845, and intimately acquainted with all that passed in reference to these measures:—"In the debate of the 25th of April 1845, with reference to the 1*l*. note circulation, Sir Robert Peel said, 'Whether or not the importance attached to the continuance of the privilege (of issuing 1*l*. notes) can be perfectly justified by reason or argument, I know not. Whether there be not an undue value attached to them may be a fair question of doubt; still, in attempting to introduce principles which I believe to be good, I will not attempt to shock even the prejudices of the people, or to run the risk of encountering that opposition which I knew I should have to encounter from Scotland almost universally. Without guaranteeing, therefore, the continuance of these notes, all I can say is, that we do not propose to prohibit them at present; I say

nothing, however, as to the future. The discretion of Parliament must be left unfettered in respect to them. If the continuance of this privilege affects no interests—if it has no injurious effect upon the circulation either of Scotland or of other parts of the empire, there is no doubt whatever that a future Parliament will entertain the same forbearance, and will not disturb the settled habits of business of a whole country, or run counter to its feelings, for the mere purpose of carrying out some theoretical principle.’ ”

66. Your Committee have examined the operation of those statutes, not with a view to ascertain whether they constitute the most perfect system conceivable for regulating the paper circulation of an empire, but rather whether their operation has been such as to secure the main object for which they were designed. The main object of the legislation in question was undoubtedly to secure the variation of the paper currency of the kingdom according to the same laws by which a metallic circulation would vary. No one contends that this object has not been attained.

67. Mr. Rodwell says that before the Act of 1844 the country bankers were not all aware of the consequences of their issues; that, if they had been, such disasters would never have arisen as arose in 1825; and he knows the practice to have been that it was considered as a part of the business of a country banker to get out as much of his issues as he could, which eventually turned back upon himself when he did not expect it, and was least prepared to meet it. He says that before 1844 they did not so fully understand the laws which ought to guide a banker in making his advances; but that now they look to the unemployed notes (in the Bank of England) as an infallible index of what it is necessary for the Bank of England to do, and for the country bankers to do also. In recent times the increased facilities of intercourse and of banking have increased the rapidity with which notes find their way back to the banker who issues them; while the restriction of bank notes in England and Wales to sums not less than 5*l.* excludes them in a considerable degree from the retail transactions of the country. It may be laid down, that in the opinion of every practical witness who is an advocate for the convertibility of notes, the amount of bullion retained in the coffers of the Bank under the operation of the existing law is not greater than a due regard to prudence would require, even if the law were altered. It appears that the present

law ensures the maintenance in the coffers of the Bank of an adequate amount of bullion, whilst the history of past years proves that such an amount had not been maintained by the unassisted wisdom and firmness of the Bank Directors ; and the present Court of Directors are unanimous in desiring that they should continue to be fortified by the provisions of the present Act.

68. No complaint against the Act of 1844 has been more popular, or more commonly employed out of doors, than one which may be expressed in the following words:—"That the trade of the country has increased; that a larger issue should be allowed, to supply the increased requirements of commerce; and that, therefore, a larger amount of notes, unrepresented by bullion, should be issued." This question is thus disposed of by Mr. Weguelin in 1857:—

"Do you consider that if the limit imposed by law of 14,000,000*l.* were altered, for example, to 16,000,000*l.*, it would, in truth, add 2,000,000*l.* to the active circulation?—By no means."

"Will you state what you think the effect really would be?—The effect would be either that those 2,000,000*l.* would be held in the reserve of the Bank, or, in case it occurred that the increase took place at a time when there was an adverse exchange, those 2,000,000*l.* would be exported from the country, and all the other figures would remain precisely the same."

"It would not add, under any circumstances, to the active circulation of the public?—It would not."

"You consider that the action would be, that either it would be added to the reserve of the Bank, or that the bullion held by the Bank would be *pro tanto* diminished?—That would be the action."

"Is there, in your opinion, any sufficient inducement, on the ground of public interest, to make an extension beyond the present limit of 14,000,000*l.*?—I see no advantage or particular object to be gained by it."

"The advantage of saving 2,000,000*l.* of capital would not, in your opinion, be equal to the mischief that might result from the change?—I think it would be of an insignificant character, and it would diminish the amount of actual reserve of bullion in the country."

"Would not those 2,000,000*l.* go out of the country at the first adverse exchange, and not come back; would not that be the ultimate effect?—That would be the ultimate effect."

69. It has been observed before, that while, on the one hand, the great increase of retail transactions has caused an increased demand for the smaller notes, concurrently with the increased demand for gold, yet, on the other hand, so great has been the effect of increasing facilities in banking, that a saving of a corresponding amount has been effected in the larger notes. The proportions are those represented in the following table:—

YEARLY AVERAGES of NOTES with the PUBLIC.

Year.	Notes of 5 <i>l.</i> and 10 <i>l.</i>	Percent. of Total Cir- culation.	Notes of 20 <i>l.</i> to 100 <i>l.</i>	Percent. of Total Cir- culation.	Notes of 200 <i>l.</i> to 1000 <i>l.</i>	Percent. of Total Cir- culation.	Total.
	£. <i>m.</i>		£. <i>m.</i>		£. <i>m.</i>		£. <i>m.</i>
1844	9,263	45·7	5,735	28·3	5,253	26·	20,241
1845	9,698	46·9	6,082	29·3	4,942	23·8	20,722
1846	9,918	48·9	5,778	28·5	4,590	22·6	20,286
1847	9,591	50·1	5,498	28·7	4,066	21·2	19,155
1848	8,732	48·3	5,046	27·9	4,307	23·8	18,085
1849	8,692	47·2	5,234	28·5	4,477	24·3	18,403
1850	9,164	47·2	5,587	28·8	4,646	24·	19,398
1851	9,362	48·1	5,554	28·5	4,557	23·4	19,473
1852	9,839	45·	6,161	28·2	5,856	26·8	21,856
1853	10,699	47·3	6,393	28·2	5,541	24·5	22,653
1854	10,565	51·	5,910	28·5	4,234	20·5	20,709
1855	10,628	53·6	5,706	28·9	3,459	17·5	19,793
1856	10,680	54·4	5,645	28·7	3,323	16·9	19,648
1857	10,659	54·7	5,567	28·6	3,241	16·7	19,467

70. The effect has been so great that, notwithstanding the great increase of trade, the whole amount of bank notes has actually diminished since 1844, and under the present law still continues gradually to decline. It must be taken, therefore, that in ordinary times there is no cognizable advantage to be obtained by the commercial interest from the power of increasing the amount of notes which may be issued without the deposit of bullion.

71. It is here necessary for your Committee to advert to the question whether the law should be left, subject only to that power which was contemplated by Sir Robert Peel and Mr. Huskisson, and was actually exercised by the two Governments of 1847 and 1857; or whether, on the other hand, provision should be made in advance for such contingencies,

and the conditions expressly laid down on which the issue of an increased number of bank notes may, in the time of pressure, be allowed.

72. Your Committee think that such a provision could not be regarded as any violation of the principle of the Act of 1844. To have introduced such an express provision when the law itself was first adopted by Parliament, or even when, as in 1848, it had only been a few years in operation, and was comparatively little understood, was a far more serious question of policy and of prudence than it can in fairness be regarded at the present time. Yet the interference of Government in an extreme case must, in fact, be taken to have been contemplated by the framers of that Act. Mr. Cotton stated to the Committee of 1847-8 that this subject was considered when the Act was under preparation in 1844, and that Sir Robert Peel's opinion was thus expressed:—"If it be necessary to assume a grave responsibility, I daresay men will be found willing to assume such a responsibility." It scarcely, therefore, constitutes, of itself, a sufficient ground for bringing this important and difficult subject under the review of Parliament, and may properly await the decision of the Legislature when the other branches of the subject shall again be dealt with.

73. They would, however, here take occasion to observe that, if new provisions shall at any future time be made by Parliament, the great object of securing the maintenance, at the time of severest pressure, of an adequate supply of bullion should be guarded with the utmost caution.

74. In considering these new provisions, your Committee assume that no hazard will be incurred with regard to the foreign exchanges, but that the efficient action of the law in that respect will be firmly maintained. The mischief your Committee are now considering is the domestic drain occasioned by panic, and evidenced by hoarding, which, in cases of commercial crisis, supervenes upon a foreign drain, and creates an abrupt interference with the circulation, by withdrawing from it for a time, for the purpose of hoarding, a part of the ordinary circulating medium.

75. Your Committee have already touched upon other points in which the enactments of the Legislature in 1844 and 1845 fall short of the principles on which those enactments are founded, and desire to express their concurrence in the wisdom of adapting practical legislation in an important degree to the existing interests and wishes of the community. Of these questions, an important one is that of the

small note circulation still existing in Scotland and Ireland. The advice of Adam Smith (B. 2. c. 2), that no bank notes should be issued in any part of the kingdom for a smaller sum than 5*l.*, is enforced by the Bank Directors as a matter of principle, both in 1857, and again more strongly in 1858, after the experience of the autumn of last year. It is, however, still a question into which the same considerations enter in a modified degree, by which all Governments and every succeeding Parliament have been influenced, from 1826 to the present time, whether the application of this principle shall be extended to Scotland and Ireland. The failure of the Western Bank has now withdrawn 337,938*l.*, or about $\frac{1}{10}$ th part, from the authorised circulation of Scotland; and the Act of 1845 operates with a greater proportionate effect both upon Scotland and Ireland as the population and trade of those countries increase, and the proportion of the retail or small bank note circulation represented by bullion to the authorised or unrepresented part increases also.

76. On the other hand, it appears from the evidence that, notwithstanding the expense which the requirements of the Act of 1845 impose upon Scotland, there has been a very remarkable increase in the number of branch banks established since the passing of the Act; so that the number of banks in Scotland, including branches, now actually exceeds the number of the whole of the banks and branches in England, or is very nearly equal to it; and that the amount withdrawn from circulation by the failure of the Western Bank has been supplied by an amount represented by bullion, without any more severe terms being imposed on the customers of the banks. Sir George Clerk says:—

“To the banks, I think, you do not consider that so much an object as to the population?—I do not think the banks have so strong an opinion in favour of the retention of the 1*l.* note circulation as they certainly expressed before the Committee which sat upon that very subject in 1826; but I believe that the general opinion of the banks would be strongly in favour of the continuance of the law as it at present stands.”

“If it were to be altered, they would meet the case as regarded themselves by some slight increase of commission charged to their customers?—Probably in that way.”

77. Without entering into any question respecting an issue of small notes on the credit of the State, the Committee desire it should be understood as their opinion that the subject of the issue of small notes in Scotland and

Ireland, and of private issues generally in the United Kingdom, should be reserved, without prejudice, for the future consideration of Parliament.

78. The Bank of Ireland complained of a special prohibition laid on them with regard to mortgages; and Mr. Latouche attended on behalf of the private bankers of Ireland to complain of an Act passed by the Irish Parliament in 1759. There appears no very obvious reason for the continuance of antiquated restrictions peculiar to Ireland. But neither of these subjects properly belongs to the present inquiry.

79. Some smaller points connected with the wording and legal operation of the Acts of 1844 have been brought under the notice of your Committee, with which they do not think it necessary to encumber their Report. It will be desirable that these subjects, especially the question whether a bank of issue which suspends its payments even for the shortest time should not lose the privilege of issue, should be carefully considered whenever the Executive Government shall next submit to the House a measure for the regulation of the relations which subsist between the Government and the Bank.

80. The pecuniary arrangements subsisting between the Executive Government and the Bank appear to your Committee to fall within the terms of their order of reference; and the Committee of 1857 took some evidence from the Governor on that subject. But your Committee understand from the Chancellor of the Exchequer that the subject is now under the consideration of the Treasury and the Bank. They think it doubtful also whether, in case it shall be necessary to submit it to such a consideration, separate from the wider questions which have come under the notice of this Committee, it would not be expedient that a less numerous Committee should be appointed for that purpose. The appointment of a separate Committee may tend to produce the useful conviction that it is not necessary to unsettle the great principles which regulate our monetary system, merely because the pecuniary relations between the Treasury and the Bank may require to be re-considered.

81. It appears to your Committee that no mischief will result from at least a temporary continuance of the present state of things, under which the Bank of England holds the powers given by the Act of 1844, subject to a notice of twelve months, which may at any time be given by the House of Commons through Mr. Speaker. They agree

with the opinion expressed by Mr. Goulburn in 1844. The Bank Directors had suggested the propriety of renewing the arrangement for twenty years, with the power of giving notice at the expiration of ten, as has been done in 1833. Sir Robert Peel's Government preferred the limit, which was actually adopted, of ten years; the Act, at the expiration of that period, to be terminable at any time upon a notice of twelve months; but until such notice be given, to continue in force. Mr. Goulburn thus accounts for this decision. In making the proposal, he says, "The Government were mainly influenced by the consideration that it was not advisable unnecessarily to agitate questions affecting the banking interest and the currency of the country."

82. Your Committee have stated the reasons by which it is established to their satisfaction, that the recent commercial crisis in this country, as well as in America and in the North of Europe, was mainly owing to excessive speculation and abuse of credit; and also that in the time of pressure the houses which deserved assistance received it from the Bank of England in a manner in which that establishment would not have been able to give it, except for the bullion retained in their coffers;—and your Committee are satisfied to leave in the discretion of the Executive Government the time and prudent opportunity of giving further effect to those principles by which the convertibility of the Bank of England note has been kept above suspicion.

July 1, 1858.

CHAP. II.

ON THE REPORT OF THE COMMITTEE—EXTRACTS FROM LORD OVERSTONE'S EVIDENCE—ON THE RATE OF INTEREST INDICATING THE VALUE OF MONEY—OPINIONS OF ADAM SMITH AND HUME—ON THE EFFECT OF THE GOLD AND SILVER MINES IN AMERICA ON THE INTEREST OF MONEY—ON INTEREST AND USURY—ON PAPER MONEY VARYING IN AMOUNT AS A METALLIC CIRCULATION.

SOON after the publication of my "Treatise on Coins, Currency, and Banking," the Select Committee on the Bank Acts presented the preceding Report. I have not thought it necessary to give all the particulars relating to some failures which took place during the crisis of 1857, and which are detailed in sections 33, 35, 36, 39, 45, 46, 47, 48, 50, of the Report. I have extracted, I think, sufficient from those sections to show the character of the houses, and the proceedings towards them of the Bank of England.

It is to be remembered that the Evidence was given previously to this disastrous period, the examinations of witnesses being closed on the 24th July, 1857; while the Government letter, which suspended, the second time, the most important operation of the Bank Act of 1844, is dated 12th November, 1857, and that the Report is dated 1st July, 1858.

This Report has given additional importance to the opinions in favour of the Bank Act, the Committee expressing a general acquiescence in the principles on which it is founded, although they decline coming to a conclusion upon some subjects of controversy involved in the Evidence taken in 1857.

I have already, in my "Treatise," given a portion of Lord Overstone's evidence, on which I made some remarks: the following evidence will further illustrate his lordship's views, on which I beg to offer some observations.

The Right Hon. Lord OVERSTONE, 7th July, 1857.

3648.—The public became dissatisfied, and very reasonably so; some more definite and scientific system for the regulation of the paper money of the country was demanded. That practical and sagacious statesman, Sir Robert Peel, applied his mind to the subject. He at once grasped the true character of the paper bank note. He saw that if it was to be convertible at all times into gold, it must be treated as the direct representative, or I may say, as the shadow of the gold coin; and from this it followed as a necessary consequence, that it must at all times be preserved at what would be the amount of a gold circulation. To secure this purpose, it became obviously necessary to separate the accounts—that is, to establish an effectual distinction between the regulation of the amount of paper money, and the conduct of Banking business; to render them as separate in form of account, and in fact, as they are really separate in principle; to subject the paper money to positive regulation by law as regards the fluctuations of its amount, whilst the conduct of banking business is left subjected to the principle of free competition, and personal discretion and responsibility. Upon this principle, and with this view, the Act of 1844 was passed.

—Having arrived at a distinct and correct understanding of the true character and function of paper money, *i.e.* of bank notes, that they are certificates or representatives of bullion, to be kept at their proper amount by positive regulation of the quantity issued, as the coin would be necessarily preserved at its proper amount by the regulation which arises from its intrinsic value,—the next important point for consideration is the extent to which this principle is recognised and carried out in the provisions of the Act of 1844. By that Act a positive limit is fixed to all the country issues. The fluctuations, therefore, in the amount of paper money are necessarily thrown upon the notes of the Bank of England exclusively, and the amount of the issues of Bank of England notes is made to vary with the bullion. By this means effectual security is obtained, that the amount of paper money in the country shall at all times conform to what would be the amount of a metallic circulation. Of this there can be no doubt. The paper money of the country, under the Act of 1844, conforms strictly in amount, and consequent value, to a metallic circulation; those fluctuations of amount, and those only, which would occur under a purely

metallic circulation, can and will occur under our present mixed circulation of gold and paper, as regulated by the Act of 1844. This being the case, it only remains to consider what has been the practical result of the adoption of these principles. The effectual protection of the bullion reserve was the primary object and purpose of the Act; this has been fully accomplished. The bullion has been subjected to two severe drains, in 1847, and again in 1856-1857; but in neither case has it been reduced to an unduly low amount; at no time, I believe, has it fallen below 8,000,000*l*. — Has this result been accomplished by an improper injury or sacrifice of our trading and commercial interests?—For an answer to this question, we may turn to the reports of the Board of Trade, showing, during the 13 years in which the Act has been in operation, an increase of imports and exports from 45,000,000*l*. to 120,000,000*l*. We may also appeal to the universal recognition that the last year, although dedicated to the adjustment of heavy war expenditure, and exposed throughout to severe pressure by adverse exchanges, has been nevertheless a period of prosperity almost without example.

—It may be sufficient now to observe, that these provisions, the separation of the accounts, and the positive restriction of the amount of paper issues, constitute the only real and effectual distinction between the monetary difficulties and dangers which attended every period of drain previous to 1844, and the striking contrast which the subsequent period presents.

3649. I apprehend that the plain, clear, and distinct principle of the question is this,—that by having limited the paper money, so that it has fluctuated with the bullion, as the bullion has gone out the money of the country has been diminished, until it reached a certain point, below which the national wants and necessities of the country would not permit it to be further diminished. By that means the money of this country was increased in value, so that it no longer became advantageous to send commodities to this country; but money was the best remittance to send to this country, and by that means the store of bullion was immediately replenished. It is the plain result, from the operation of the principle with regard to the interchange of the precious metals throughout the world, which has been recognised and acknowledged by every authority which has ever written upon the subject.

3651. The operation of the Act of 1844 is this,—that the

bank notes, in other words, the money of the country, must decrease as the drain of bullion goes on. That decrease in the money of the country must augment its value; that augmentation of its value must produce two effects: one is, that it causes a temporary rise in the rate of interest, to which the Bank must conform; and the other is, that it induces the bullion merchants of this country to write to their correspondents abroad, to say, "Money in relation to all other things has become more valuable in this country than it was; therefore in your transactions with us remit money in preference to other things," and in that way the exchanges are soon rectified.

3652. The rate of discount is the value of money, and that is regulated by one of two things. Generally in all its great and permanent fluctuations, it is really an alteration in the value of capital; in some of its minor fluctuations, minor as to extent and as to duration, it may be the result of a decrease in the quantity of money.

3657. When the rate of interest has naturally been rising on former occasions, the Bank has been slow and tardy in conforming to that natural increase in the value of money, and mischief has ensued from it; but the Bank would always best serve the public, if it were to conform as strictly and as speedily as is possible to the real market value.

3665. On the whole, you would not be disposed to recommend any change similar to that contemplated in the question referred to,—namely, the withdrawal of the business of issue from the Governor and Company of the Bank of England, and the placing it in the hands of a body nominated by the Government, or by Act of Parliament?—I must again say, that I dislike the expression of the business of issue being in the hands of the Governor and Company of the Bank of England. I consider the business of issue to be in the hands of the Issue Department, and in the hands of the law of the country. The Governor and Company of the Bank of England have no power in the matter of any sort or kind; they are merely the clerks who have to do the business which the law has ordained.

3815. 3816. Oscillations in the rate of discount are mainly oscillations in the value of capital. "In their smaller character they are oscillations in the value of the money of the country."

3819. Money I apprehend to be this: it is necessary for carrying on the relations of civilised communities, that there should be some one universal equivalent which is taken as

such by all countries, and the precious metals are taken and adopted in that character. Then the various conditions of different countries assign a certain portion of the precious metals of the world to each country, and the portion so assigned to each country, for the purpose of acting as the universal equivalent, is the money of that country.

3899. 10th July.—You do not hold the opinion that the notes in the hands of the public ought to fluctuate now in relation to the fluctuations of the bullion in the Bank? — The opinion which I hold is perfectly plain and distinct, that bank notes are nothing more than certificates of bullion in deposit, and that they ought to fluctuate exactly as the bullion fluctuates.

3900. I speak of the bank notes in the hands of the public? — But I never do speak of them in that sense of the word, because I maintain distinctly that the Bank of England is itself a most important portion of the public.

3901. Still you admit that the whole of the evidence prior to 1844 proceeded upon the notes in the hands of the public only? — Yes; it proceeded upon the notes in the hands of the public only, because that was the only knowledge which we then possessed. But I repeat, what I have stated over and over again, and what you will find I gave in answer to you on a former examination, that we always said that whenever the accounts were put into a correct and intelligible and honest form, we should then have some knowledge of the Bank reserve, and that that Bank reserve was a very important part of the question.

3935. Supposing that we had a purely metallic currency, and no notes at all, and that there was a drain of bullion, which in the same manner would be satisfied from the reserve of the Bank of England, would it in any way act upon the metallic coin in the country? — If you assume that the whole money of the country is metallic, and if you assume that a certain portion of that metallic money is taken out of the country, then there is a diminution of the money of the country to that extent; if that diminution takes place entirely out of the reserve existing in any banking establishment, provided the condition of that reserve is made known to the public, the action will be very powerful and very salutary.

3936. But the quantity of coin circulating in the hands of the public will not be diminished by a drain upon the reserve of the Bank of England in the event of an adverse foreign exchange? — There is no doubt that the bullion lying in the Issue Department of the Bank of England is kept more immediately to meet the effects of a foreign drain,

to deal with foreign exchanges. No doubt, the pressure through the foreign exchanges will in the first instance be met by the bullion which is in the coffers of the Issue Department of the Bank of England, and it is only under a very severe drain, and under peculiar circumstances, that it will exercise a very powerful influence over the coined metal which is circulating throughout the country; but the diminution of the bank notes in the hands of the Bank of England paid into the Issue Department for the purpose of obtaining the bullion, when known to the public, will produce all the effects which are necessary for the due regulation and management of the money of the country. The moment the public know that the money in the hands of the Bank of England is diminished seriously, there is a very salutary and very protective influence exercised upon credit, upon confidence, and upon all those progressive stages through which rectification arises.

3937. The immediate effect will be to induce to an increased rate of discount? — A diminution of money in the country will tend to raise the value of it.

3938. But an increased rate of discount will not necessarily diminish the amount of money in the hands of the public, will it? — No; I do not know that an increased rate of discount will necessarily diminish the amount of money in the hands of the public; but I know this, that a diminution of the amount of money in the country will make the remaining money more valuable, and that that increased value of the remaining money of the country will very soon rectify the exchanges, and bring back the quantity which we want in order to re-establish the monetary equilibrium which has been disturbed.

3939. That increased value may be seen by an increased rate of interest? — It may be seen by a hundred different effects.

3940. The immediate effect will be an increased rate of discount? — In all probability.

3941. Practically in the Bank of England that is the way in which it exhibits itself? — Yes.

3999. The difference is this,—that the pressure under the Act of 1844 comes upon the banking reserve, and the trial is taken upon the diminution of the banking reserve, instead of being taken upon the exhaustion of the bullion; and in addition to that, the regulation is, by necessary force of law, clearly and distinctly defined; whereas before the Act of 1844, it was a regulation springing out of a panic feeling on

the part of the public, which was irregular as to the time of coming into operation, uncertain as to the extent or intensity of its operation, and most dangerous in its consequences.

7th July, 1857. (3841.) Lord Overstone is asked, "Do not the changes in the rate of discount by the Bank invariably follow more or less the state of the reserve?—The variations in the rate of discount have, no doubt, a very close relation to the state of the reserve, because the state of the reserve is the indicator of the increase or the decrease of the quantity of money in the country; and in proportion as the money in the country increases or decreases, the value of that money will increase or decrease, and the Bank rate of discount will conform to that change."

3841. I submit that there are several fallacies in this statement. The state of the reserve is not "the indicator of the increase or the decrease of the quantity of money *in the country*," but of the Bank notes in the Banking Department. We are told that the circulating gold and silver money has increased to the extent of 30 per cent. in six years (Report, s. 3), and the Bank reserve does not indicate this increase. It is also erroneous to say that "in proportion as the money in the country increases or decreases, the value of that money will increase or decrease, and the Bank rate of discount will conform to that change." The rate of discount does not indicate "the *value* of money." Whether the rate be 5 per cent. or 10 per cent., there is no change indicated in the *value* of money; the *value* of money paid as *interest* for the use of the money corresponds exactly in proportion with the value of the money borrowed, whatever may be the rate; the *interest* is a part of the *principal*, and must be the same in *value*, being a *portion of the same thing*. If the borrower pays 5 per cent., he gives the lender 5*l.*, and receives 95*l.*; if 10 per cent., he gives 10*l.*, and receives 90*l.* or sovereigns. The interest and the principal are the same money, and the value of money cannot be measured by itself; the rate of interest indicates the *necessities* of the borrower and the *facility* of borrowing, and nothing else. It has

nothing to do with the *value* of money; that value is indicated by the price of commodities—by the quantity of commodities given in exchange for the money. As money indicates the price or *value* of commodities, so commodities indicate the *value* or price of money; that is, of gold and silver money, of coins. The state of the reserve is the state of *Bank notes* in the Banking Department, and the quantity of Bank notes in the Banking Department depends upon the quantity of bullion in the Issue Department *at the disposal of the Banking Department*; and bullion being the only means by which the Banking Department can procure Bank notes with which to discount bills, the sole object of raising the rate of discount, or in technical language, making money more stringent, is to obtain bullion or to retain it, in order to have a larger supply of Bank notes, when the *reserve* is thought insufficient. It is not bullion, for its own sake, that is wanted by the Banking Department, but Bank notes. I beg attention to the following extract:—

Adam Smith, B. 2. c. 4.

“Mr. Locke, Mr. Law, and Mr. Montesquieu, as well as many other writers, seem to have imagined that the increase of the quantity of gold and silver, in consequence of the discovery of the Spanish West Indies, was the real cause of the lowering of the rate of interest through the greater part of Europe. Those metals, they say, having become of less value themselves, the use of any particular portion of them necessarily became of less value too, and consequently the price which could be paid for it. This notion, which at first sight seems so plausible, has been so fully exposed by Mr. Hume that it is, perhaps, unnecessary to say anything more about it. The following very short and plain argument, however, may serve to explain more distinctly the fallacy which seems to have misled those gentlemen.

“Before the discovery of the Spanish West Indies, ten per cent. seems to have been the common rate of interest through the greater part of Europe. It has since that time, in different countries, sunk to six, five, four, and three per cent. Let us suppose that in every particular country the value of silver has sunk precisely in the same proportion as the rate of interest; and that in those countries, for example, where

interest has been reduced from ten to five per cent., the same quantity of silver can now purchase just half the quantity of goods which it could have purchased before. This supposition will not, I believe, be found anywhere agreeable to the truth, but it is the most favourable to the opinion which we are going to examine; and even upon this supposition, it is utterly impossible that the lowering of the value of silver could have the smallest tendency to lower the rate of interest. If a hundred pounds are in those countries now of no more value than fifty pounds were then, ten pounds must be of no more value than five pounds were then. Whatever were the causes which lowered the value of the capital, the same must necessarily have lowered that of the interest, and exactly in the same proportion. The proportion between the value of the capital and that of the interest must have remained the same, though the rate had never been altered. By altering the rate, on the contrary, the proportion between those two values is necessarily altered. If a hundred pounds now are worth no more than fifty were then, five pounds now can be worth no more than two pounds ten shillings were then. By reducing the rate of interest, therefore, from ten to five per cent., we give for the use of a capital, which is supposed to be equal to one-half of its former value, an interest which is equal to one-fourth only of the value of the former interest."

If the discovery of the gold and silver mines in the Spanish West Indies, which so immensely increased the quantity of the precious metals and lowered their value to one-third of their price relatively to commodities, had no tendency to lower the rate of interest, neither can a diminution of the quantity tend to raise the rate of interest; the same reasoning applies to both cases, that the interest is a part of the principal, and rises and falls in value with the principal: the value of nothing can be measured by itself.

This fallacious maxim is advanced by the Lords' Committee of 1848, in section 13 (see p. 309, *antè*):—

"If the Act were relied on as a security against violent fluctuations in the *value of money*, the fallaciousness of such anticipation is conclusively proved by the fact (2308), that whilst the difference between the highest and lowest rate of discount was in the calamitous years 1837 and 1839 but $2\frac{1}{4}$ to $2\frac{3}{4}$ per cent., the difference in 1847 rose to $6\frac{3}{4}$."

And Sir Robert Peel also states in his speech, Aug. 28, 1848, as one great truth —

“That the rate of interest must vary with the value of money and the demand for it, and cannot be permanently regulated by the Bank of England.”—*Hansard*.

Adam Smith truly observes, B. 4. c. 1:—

“The price of those metals is not altogether exempt from variation, but the changes to which it is liable are generally slow, gradual, and uniform. But to make any sudden change in the price of gold and silver, so as to raise or lower at once, sensibly and remarkably, the money-price of all other commodities, requires such a revolution in commerce as that occasioned by the discovery of America.”

B. 1. c. 6. And he thus describes “interest,” or “the use of money”:—

“It is the compensation which the borrower pays to the lender, for the profit which he has an opportunity of making by the use of the money. Part of that profit naturally belongs to the borrower, who runs the risk, and takes the trouble of employing it; and part to the lender, who affords him the opportunity of making this profit.”

Blackstone, in his Commentaries, writes, B. 2. c. 30:—

“If I borrow 100*l*. to employ in a beneficial trade, it is but equitable that the lender should have a proportion of my gains. To demand an exorbitant price is equally contrary to conscience, for the loan of a horse or the loan of a sum of money; but a reasonable equivalent for the temporary inconvenience the owner may feel by the want of it, and for the hazard of his losing it entirely, is not more immoral in one case than it is in the other.

“A capital distinction must therefore be made between a moderate and exorbitant profit; to the former of which we usually give the name of interest, to the latter the truly odious appellation of usury: the former is necessary in every civil state, if it were only to exclude the latter, which ought never to be tolerated in any well-regulated society. For as the whole of this matter is well summed up by Grotius, ‘If the compensation allowed by law does not exceed the proportion of the hazard run or the want felt by the loan, its

allowance is neither repugnant to the revealed nor the natural law; but if it exceeds those bounds it is then oppressive usury; and though the municipal laws may give it impunity, they can never make it just.'

"Thus, if the quantity of specie in a nation be such, that the general inconvenience of lending for a year is computed to amount to three per cent., a man that has money by him will perhaps lend it upon good personal security at five per cent., allowing two for the hazard run; he will lend it upon landed security or mortgage at four per cent., the hazard being proportionably less; but he will lend it to the State, on the maintenance of which all his property depends, at three per cent., the hazard being none at all."

Lord Overstone states (3722, 3724), "That the profits of trade being destroyed by a high rate of interest is most erroneous;" that "a rise in the rate of interest is seldom of any long duration;" and, "if of long duration and of great extent, it is because the rate of profit is increased." It is difficult to reconcile this opinion with that expressed by his lordship:—

3810. "The natural effect of money being more stringent, is to lower the price of goods?—Yes, that is the principle at the bottom."

If the raising the rate of interest were a private transaction between individuals, having no reference to the Bank of England or the state of the reserve, the effect would be simply that the borrower would pay a higher rate for the particular loan for a definite period, as in the case mentioned by Mr. Macfarlan, when 16 per cent. was paid for a loan of 20,000*l.* for three months (p. 330, *antè*); this would be 800*l.*, which would not be ruinous—but the fall in "the price of goods" may be much more serious: if a merchant held 100,000*l.* worth of goods, and from the shock to credit in consequence of the raising the rate of interest, their value was reduced 30 per cent., he would lose 30,000*l.*, which might ruin him; and it is this shock to credit which will destroy markets, and unless this takes place, the object of bringing back the bullion, or regaining it when gone,

would not be obtained: this is the salutary and corrective effect so much lauded:—

3809. “The expected effect of raising the rate of discount is to lower the price of securities and goods?—It is a recognition that money has become more valuable in this country, and in proportion as money has become more valuable, there will be various means taken to get money remitted from abroad, in preference to other things, until that disturbed relation of the value of money in this and other countries is rectified.”

The relation which is disturbed is the relation of bank notes in the banking department called the “reserve,” and the requirements of the public for a medium of exchange: the *value* of the money both here and abroad is not affected, but credit is shaken, and trade is disturbed, and the prices of *securities* and *goods* are lowered in value. The raising the rate of interest has no relation to the value of the precious metals, and instead of any relation between the value of the money in this and other countries, it is the value of commodities in this and in other countries, which governs the demand for bullion—as I have said when treating of Colonel Torrens’ Theory, p. 245, *antè*. This is a great fallacy, which forms a principal argument of Lord Overstone’s reasoning, and indeed which he offers as the ground of the approval of the Bank Act, and which, it appears, has no foundation. (See p. 254, *antè*.)

The Bank of England can purchase bullion with its notes in the home market, and feels no inconvenience until the bullion there is exhausted: it is impossible to foresee how soon this may happen. So many circumstances are to be taken into consideration that it would be the height of presumption to attempt it; and commerce should be quite independent of this contingency, which ought to have no more influence on the conduct of the Bank of England, or of other banks, than would be produced by the greater or less quantity of any asset on which the Bank had advanced money.

“ Mr. Weguelin, a member of the Committee, and then Governor of the Bank, stated to the Committee of 1857 that this increase in the circulating medium of the United Kingdom was estimated by those in whose judgment the Bank Directors placed the greatest reliance at 30 per cent. in the six years then last elapsed. The total gold circulation is believed by him now to amount to nearly 50,000,000*l*.”— (Report, section 3.)

This addition to the domestic circulation of gold coin, be it observed, was occasioned, not by *pressure* on commerce, but by the *extension* of commerce and the improved condition of the working classes ; in other words, by the wants and necessities of the community. An increased consumption required an additional quantity of the coin to effect the exchanges which such consumption required. Is not this a convincing argument to show that, as the domestic circulation of coin is supplied by individuals as wanted, so the international bullion would be supplied by the foreign trade, if left free and unfettered, without any disturbance of trade and of international commerce ? But the Directors of the Bank of England advocate a forced importation of bullion by lowering prices, by infringing arbitrarily the rights of property.

After enumerating the pains and penalties imposed to maintain the *mercantile* system, Adam Smith, B. 4. c. 8, adds the statutes prohibiting any artificer of any of the manufactures of Great Britain from going “into any foreign parts” to practise or teach his trade there, and remarks :—

“ It is unnecessary, I imagine, to observe how contrary such regulations are to the boasted liberty of the subject, of which we affect to be so very jealous ; but which, in this case, is so plainly sacrificed to the futile interests of our merchants and manufacturers.”

The mercantile system has disappeared, but the rights of property and the freedom of trade are now made subservient to our *monetary* system, to the monopoly of the Bank of England and the Bank Act. Well may we exclaim, How contrary are the regulations

enforced by the Bank Act "to the boasted liberty of the subject, of which we affect to be so very jealous" !!

Adam Smith observes, B. 4. c. 7 :—

"Monopoly of one kind or another, indeed, seems to be the sole engine of the mercantile system."

It has become now the sole engine of the banking system.

Adam Smith, B. 2. c. 5 :—

"When the foreign goods which are thus purchased with the surplus produce of domestic industry exceed the demand of the home market, the surplus part of them must be sent abroad again, and exchanged for something more in demand at home.

"The most roundabout foreign trade of consumption, therefore, may upon some occasions be as necessary for supporting the productive labour of the country, and the value of its annual produce, as the most direct."

Among the "foreign goods" which are purchased with the "surplus produce of domestic industry," no commodity, perhaps, at the present time exceeds so much the demand at home as gold and silver, or bullion. The additional quantity required annually for our domestic circulation in coin, and for the plate of private families, is small in comparison with the annual importation ; the "surplus" must be sent abroad, and "exchanged for something more in demand at home."

Bullion, more than any other commodity, will be speedily exported, as it yields no revenue, and is at the same time the most saleable commodity in all civilised countries. This bullion has been purchased with the surplus produce of domestic industry, as much as sugar, tea, or coffee. Is it not most extraordinary that this bullion should, *under any circumstances*, be placed under the control of a National Bank ; that it should in any country be made the only means of procuring bank notes which circulate only in Great Britain ; that when there is a great demand for bullion—a proof, perhaps, of the flourishing state

of commerce—and for Bank notes, the entire domestic credit should be disturbed for want of this usual medium of cancelling debt ; that the prosperity of the “roundabout foreign trade,” in consequence of this arrangement, should distress and paralyse the domestic industry of the country?

If the “surplus produce of domestic industry” cannot be exported in exchange for the produce of foreign countries with a prospect of advantage, the natural remedy is that bullion should be exported until the foreign markets offer a sufficient inducement to export this surplus. How prejudicial must it be to the manufacturer to withhold this bullion from the exporting merchant, which has been purchased with the commodities of domestic industry. How utterly inconsistent with common sense and with justice to make it the condition of the Bank of England obtaining notes that pressure shall embarrass the domestic circulation, and that credit shall be shaken in order to defeat the demand for bullion ; or to add to bad markets abroad bad markets at home, to make these bad markets, under any circumstances, the foundation of the security of our paper circulation, by lowering the prices of commodities, that these cheapened goods may supply the place of bullion, upon the plea of securing the convertibility of the bank note.

Another dogma on which great stress is laid, and which is sanctioned by the Committee in their Report, and which I consider fallacious is, “that the paper circulation should vary in amount as a metallic circulation would vary.”

14 March, 1848: James Morris, Esq., Governor of the Bank of England (See p. 326, *ante*):—

3445. “Do you think that the system of circulation should be preserved at any cost to the employment of the people? I think it is desirable that the circulation should be placed on such a footing as that it should expand and contract in the same way as a metallic circulation would do. I cannot vary from that.”

Sir Charles Wood in his speech, May 10, 1844 (See p. 240, *antè*):—

“The paper circulation must not only be convertible, but must vary in amount from time to time, as a metallic circulation would vary.”

Lord Overstone, 7 July, 1857:—

3646. “I understand the great principle of the Act 1844 to be this:—to make the amount of paper money in the country conform in its variations to what would be the variations in the amount of a metallic currency, and that all the other provisions of the Act are ancillary to the carrying out that great principle.

3787. “You have stated that the paper of the country should be regulated in precise proportion to the metallic money? Certainly.

3788. “Could the commercial operations of this country be carried on if there was no paper money at all? They could be carried on with perfect ease in every respect, except the mechanical difficulty of carrying about a cumbrous and weighty instrument, instead of a light and convenient one.

4025. “You have frequently made use of the expression that the Bank note is nothing more than a certificate for so much bullion? It is a certificate of that amount of bullion which would be in circulation as money if there was no paper note.

4026. “The total amount of notes issued is that which would be the total amount of bullion in circulation if we had only a metallic currency.”

1 July, 1858 (Report, section 66):—

“The main object of the legislation in question was, undoubtedly, to secure the variation of the paper currency of the kingdom, according to the same laws by which a metallic circulation would vary. No one contends that this object has not been attained.”

Surely it is a great fallacy to suppose that a metallic circulation is the type of a perfect currency, or that such a currency could possibly exist in the present state of commercial exchanges, or (4025) that “bank notes are certificates of that amount of bullion which would be in circulation, as money, if there was no paper note.”

Instead of carrying about "a cumbrous and weighty instrument" (3788), in the absence of bank notes, people would have recourse to the obvious resource of cheques, bills, and transfers.

Lord Overstone (4030) "We must not discuss the arrangements of the world on the supposition that the world is to stand still," neither should we seek the type of a sound currency in times antecedent to the introduction of bills, banks, and credit.

I submit that we should confine the bank note to the obligation expressed in the words of the note, as is the case with all merchants' bills, and every other engagement to pay *pounds*, or sovereigns, the money of the realm; and that the circulation of bank notes should be limited to those notes which more conveniently supply the place of *coins*, and for which coins would circulate in the absence of bank notes; it is only pounds or coins which the note promises to pay. What are the notes which supply the place of coins? Certainly not the notes of a high denomination: it would be a return to comparative barbarism to carry about bags of coin or bullion to supply the place of the large notes of 200*l.* or 1,000*l.*—the thing is preposterous. The mode of meeting bills of large amount would be by transfers of account at the banks, as at Hamburg, where no promissory notes circulate, or by other good bills or cheques. We may be quite sure that expedients would be found to avoid the inconvenience. Yet this is assumed to be the type of a perfect circulating medium, when it is said that "The paper circulation must not only be convertible, but must vary in amount, from time to time, as a metallic circulation would vary."

I have remarked (p. 178, *antè*) "the larger notes displace rather other forms of credit which are not so convenient:" (and p. 341) "if the money were metallic, the circulation would not absorb the bar gold and silver bullion."

If all notes were suppressed above the denomination

of 5*l.*, 10*l.*, and 20*l.*, and a competition of banks were allowed, I believe commerce would find little or no inconvenience.

I have given (p. 193, *antè*) a statement of the bank notes in circulation in the years 1844, 1845, 1846, 1847, distinguishing the amount of the notes of different denominations, and the time they remained in circulation, and I have separated the principal denominations and amounts; it will be found that the 5*l.*, 10*l.*, and 20*l.* notes in the year 1844 amounted to 9,540,000*l.*, and remained in circulation respectively 88 days, 91·3 days and 67·4 days, while the notes of a high denomination remained comparatively but few days, the 300*l.*, 500*l.*, and 1,000*l.* only 9, 10·3, 7·3 respectively.

It is one great argument of the supporters of the present system, that the foreign commerce of Great Britain, instead of being carried on by merchants and traders, is the action of the *country*, as is shown by the reasoning of Mr. T. Baring and Mr. Cardwell, on which I have commented, p. 112, 243 and 244. This argument is apparently acquiesced in by those who oppose the Act. The contrast between the facility of obtaining the supply of coin for the country—that is, the supply of money which is wanted by the community—and the supply of bullion or *merchandise*, for the foreign trade, which is wanted for exportation by individuals, is very striking under the present system.

This demand for bullion for exportation may be wanted suddenly, and the country, as a *community*, has no concern with it. The demand for coin or money is gradual, and increases and diminishes with the increase or diminution in the demand for it, from the community, in the domestic exchange of commodities. Neither the State nor the Bank of England purchased with commodities the additional quantity of gold and silver circulating medium mentioned by Mr. Weguelin (p. 450, *antè*). This the country, the

community, purchased and paid for, because the wants of the community required it: there has been no pressure applied, no contraction of paper currency. Throw the *onus* of providing bullion for exportation exclusively on those who may want it, and the bullion would in the same manner be found, as required by those engaged in the foreign trade.

It will be seen, on reference to the extract from Blackstone's Commentaries (p. 447, *antè*), that a capital distinction is drawn by that learned commentator between *interest* and *usury*, between a moderate and exorbitant profit on the loan of money; and the opinion of Grotius is quoted by him to the same purpose, who terms excessive interest "oppressive usury," which, "though the municipal laws may give it impunity, they can never make it just."

Adam Smith, in allusion to the prohibition in the reign of Edward VI. to take any interest, observes (B. 1. c. 9.) this "probably rather increased than diminished the evil of usury."

After observing that the legal rate of interest was 10 per cent. in the reign of Henry VIII. and of Elizabeth, and 8 per cent. in the reign of James I.; 6 per cent. soon after the Restoration, and 5 per cent. by the 12th of Queen Anne, he proceeds:—

"All these statutory regulations seem to have been made with great propriety. They seem to have followed, and not to have gone before the market rate of interest, or the rate at which people of good credit usually borrowed. Since the time of Queen Anne, five per cent. seems to have been rather above than below the market rate. Before the late war, the Government borrowed at three per cent.; and people of good credit in the capital, and in many other parts of the kingdom, at three and a half, four, and four and a half per cent."

And respecting the variations in the legal rate of interest in France:—

"The supposed purpose of many of those violent reductions of interest was to prepare the way for reducing that of the public debts: a purpose which has sometimes been executed."

I have given the opinion of Lord Bacon on usury, which, when he wrote, appears to have been applied to all interest (pp. 219, 342, 343, *antè*), that the legal rate "in general be reduced to 5 per cent., that the tooth of usury be grinded, that it bite not too much."—*Essays: Usury*.

How different are the opinions entertained by the advocates of the Bank Act. On the fallacious principle that the rate of interest indicates the value of *money*, and that the state of the Reserve indicates that value, the rate is to be raised (3806) "to whatever extent may be necessary, to check the further export of bullion, and to bring back again that which has gone."—(p. 254, *antè*.)

The exaction of exorbitant interest is not considered "oppressive usury,"* but a meritorious act, under the name of firmness.

In an unfettered state of things it is the value of the *use* of money, the profit to be derived from its *use*, which determines the rate of interest; if the "gold sovereign" were to fall to half its present value, whether it would purchase one bushel of wheat or two bushels of wheat, it would not affect the rate of interest.

Because a house had borrowed (see p. 330, *antè*) 20,000*l.* for three months, "only to tide over a difficulty," at the rate of 16 per cent., it would be absurd to suppose that so high a rate was given in consequence of the increased value of *money*: it was the *loan* which was increased in value to the borrower, on account of the "difficulty" which embarrassed him: the value of the *money* remained the same.

In Hamburg, where no bank notes circulate, the rate of interest on the 19th of October (see section 19) was 9 per cent.; and on the "1st December, the embarrassments of the mercantile community still continued (see section 56) undiminished;" and "on December 12th, so soon as it was known that by the

* As by Grotius, p. 447, *antè*.

aid of the Government the leading houses would fulfil their engagements, the panic ceased. Money at once became abundant, and in about a fortnight the rate of discount for the best bills fell to 2 and 3 per cent."

It would be very unreasonable to suppose that the rate of interest fell from 9 to 2 and 3 per cent. in consequence of an alteration to that extent in the value of gold and silver; it was the state of commercial *credit*, not the value of silver, which produced the change.

It would be better, perhaps, if promissory notes were called paper credit. Blackstone (B. 2. c. 30) applies the same term to bills of exchange and promissory notes, and places both in the same category:—

"But there is one species of debts upon simple contract which, being a transaction now introduced into all sorts of civil life, under the name of *paper credit*, deserves a more particular regard. These are debts by *bills of exchange* and *promissory notes*."

Mr. Brown (p. 294, *antè*) states the rate of interest in 1847 to be $3\frac{1}{4}$ to 10 per cent., and—

"He adds, this does not give an accurate idea of what the interest was in 1847, because persons frequently paid a commission which made it amount to 10, 20, and 30 per cent., depending on the time the bill had to run, and the pressure of money at the moment."

Neither the commission nor interest has any relation to the value of *money*; and the rate is here stated to vary with the nature of the bill, and the pressure of money at the moment. Surely the *money* received for the bill cannot vary in value according to the time "the bill had to run."

The Lords' Committee, p. 294, *antè*, observes that:—

"Evil consequences to the full as great are traceable to the periods of forced depression of interest, as of 'high interest.'"

"The Governor of the Bank admits that such fluctuations are of great injury to the country, but attributes them not to the Act of 1844, but to other causes."

W. Newmarch, Esq. (June 5, 1857):—

1358. “The alterations in the rate of discount (charged by the Bank of England) since 1844, have been some 60 in number, whereas the alterations prior to 1844, in the same space of time, certainly did not amount to a dozen.”

P. 293, *antè*:—

“Prior to September 1844, observes Mr. Horsley Palmer, the Bank never reduced the rate of interest below four per cent., though there were occasions when the value of money for discount of bills was as low as two and a half per cent. in the money market.”

* Lord Ashburton, p. 6:—

“A short time ago the interest of money was two and a half and three per cent. Everybody found it difficult to employ their capital; now, nobody can obtain it for the best security under eight, ten, or even twelve per cent.”

† And his Lordship observed in the debate, 2nd Dec., 1847, that:—

“A most respectable merchant in Birmingham, who applied to his banker for the assistance he had been accustomed to receive, on the banker saying ‘You know that the Bank of England is charging eight per cent., and our charge must be in proportion,’ replied ‘That his profits would not afford such a charge, and he must decline the accommodation and the order too.’”

His Lordship further remarked:—

“When the rate of discount was raised stocks fell, and the directors were enabled to produce such a result when they thought it would be advantageous.”

I submit that no such power ought to exist in any Corporation.

On February 16, 1861, when the Bank of England raised their rate of discount from 7 to 8 per cent., the following paragraph appeared in the paper of the same date:—†

* Financial and Commercial Crisis, 1847.

† Hansard.

‡ Evening Mail.

“As to our prospects in relation to surrounding countries, and the manner in which our rate bears comparison with theirs, it is only necessary to state that the charge in the open market at Paris is between four and a half and five per cent.; at Amsterdam, three per cent.; at Berlin, two and three quarters per cent.; at Hamburg, two per cent.; and at Frankfort one and a half per cent. Even at New York there is an abundant supply at six per cent.”

Is it to be supposed that the *value* of money, of gold and silver money, can be in London 8 per cent., and at Hamburg 2 per cent., and at Frankfort $1\frac{1}{2}$ per cent.? when we are told by Mr. Rothschild, p. 245, *antè*, “at Amsterdam, Hamburg, and Paris, gold levels itself within a quarter per cent.: if it rises in one of them, the others follow immediately.”

I submit that a legal rate of interest, suppose 5 per cent., should be fixed by the Government, the infringement of which, by exacting more than that rate, should be liable to a penalty proportioned to the offence. Although the law might in some cases be evaded, by charging a commission in addition to the legal rate, that would affect only *individual* borrowers, and would have no *general* effect.

The following evidence confirms me in my opinion that the notes of the higher denominations might be gradually withdrawn from circulation:—

The evidence of J. G. Hubbard, Esq. (June 1857), is deserving of particular attention, as having been in the Bank Direction since 1838, and a Deputy Governor of the Bank from 1851 to 1853, and Governor from 1853 to 1855, of which the following are extracts:—

2593. “In speaking of the circulation in the hands of the public, as we now consider it, we ought really to distinguish between the lower and the higher denominations of notes; for it will be obvious that notes of 1,000*l.* and 500*l.*, and 200*l.*, and 100*l.* perform a different part in the financial economy of the country from what is performed by notes of 5*l.* and 10*l.* That difference is very remarkably evidenced by the experience of the last five years. Within the last five years an addition of 2,000,000*l.* has been found in the

Bank of England circulation of notes of 5*l.* and 10*l.*; and an equal diminution has taken place in the notes of from 50*l.* to 1,000*l.* The cause of that diminished circulation of the larger notes has arisen from the adoption of improved banking expedients in the city of London.

“The higher notes have been, in fact, representatives of claims upon the Bank of England, lodged in the hands of the bankers themselves; whereas the lower denomination of notes have been held by individuals for the purpose of effecting their daily operations.

2596. “They are bank notes not circulating in the hands of individuals, or in the pockets of the public generally, but in the deposits of bankers. The bankers would buy the securities which the Bank sold, and would send to them the bank notes which they happened to have in reserve; but to a very great extent, any such operation on the part of the Bank would bring back, not bank notes at all, but merely cheques upon themselves against the deposits they are holding for those very bankers.

2654. “You have already stated very truly that the amount of notes which people hold is the smallest quantity which they absolutely require for their transactions. Now if the currency were metallic, do you think that any other principle would regulate the quantity of coin in the hands of the public than that which now regulates the quantity of coin and notes conjointly? The principle would be precisely the same, and the amount would be regulated in the same way. In the lower denomination of notes, of 5*l.* and 10*l.* notes, the result would be practically the same; people would not think of putting 50*l.* worth of gold in their pocket-book, so that the amount of gold that would be circulated instead of the notes would not be equal to the amount of notes. There is no doubt that banking expedients would be provided which would take the place of the gold circulation, but the principle that would regulate the amount would be identical, and the variations would be precisely the same.

2655. “I hold that you can no more regulate the amount of circulation in a country, whether metallic or otherwise, than you can regulate the winds that blow.

2656. “And you hold the same opinion with regard to a mixed circulation of gold and notes? Entirely.

2657. “Whether the circulation be in notes, or whether it be in gold, the issuer of the circulation has no power to determine the amount which should be kept or used by the community. The only way in which the amount so circu-

lating can be affected is by the operation of the higher or lower value of money. If the value of money is low, say two or three per cent., people do not so much mind keeping a few hundred pounds lying idle, as they do when the value of money is six per cent., when they immediately scrape it all up, and send it to their bankers, or endeavour in some way to make it profitable."

I submit that those notes only should circulate which supply the place of money, of coins, of sovereigns or pounds, as expressed in the note, and "which are held by individuals for the purpose of effecting their daily operations," which "circulate in the hands of individuals, or in the pockets of the public generally," such are the 5*l.* and 10*l.* notes. Whether this privilege should be extended to the 20*l.* notes may be a subject for consideration. By the statement in chapter 17, p. 193, *antè*, the notes of 5*l.*, 10*l.*, and 20*l.*, formed rather more than half the circulation of the Bank of England, and I submit that the notes of the higher denomination, which represent "claims upon the Bank of England, lodged in the hands of the bankers themselves," and which "are in the deposits of bankers," should be gradually withdrawn from circulation, and their place to be supplied by "banking expedients."

In chapter 17, p. 194, *antè*, to which I beg to refer, I observed, "The large notes rather supply the place of cheques on the Bank of England, and other banks, or remain in deposit in the banker's hands."

I then submitted the propriety of withdrawing them from circulation in order to lessen the liabilities of the Bank of England; I now add the additional motive of procuring a less variable rate of interest, and a greater security of the rights of property.

CHAP. III.

DEFINITION OF MONEY BY EMINENT WRITERS—THE AUTHOR'S FORMER DEFINITION OF MONEY—SIR ROBERT PEEL'S DEFINITION OF THE POUND ERRONEOUS—"THE SYDNEY BRANCH MINT ACT, 1863"—GOLD COINS DECLARED IN THIS ACT TO BE OUR ONLY LEGAL TENDER FOR PAYMENTS—DISTINCTION BETWEEN BILLS OF EXCHANGE AND BANK OF ENGLAND NOTES—A FUNDAMENTAL ERROR IN OUR MONETARY SYSTEM.

"MONEY (*Moneta*) is that metal, be it gold or silver, which receives authority, by the prince's impress, to be current; for as wax is not a seal without a print, so metal is not money without the impression."—*Co. Litt.* 207; 1 Hale's *Hist. P. H.* 188.

"It belongs to the king only, to put a value, as well as the impression, on money; which, being done, the money is current for so much as the king hath limited."—2 *Inst.*, 575; *Williams' Law Dictionary*.

"When a given weight of gold or silver is of a given fineness, it is then of the true standard, and called sterling metal; a name for which there are various reasons given, but none of them entirely satisfactory; and of this sterling metal all the coin of the kingdom must be made, by the statute 25 Edward III. c. 13."

"As money is the medium of commerce, it is the king's prerogative, as the arbiter of domestic commerce, to give it authority, or make it current. Money is an universal medium, or common standard, by comparison with which the value of all merchandise may be ascertained; or, it is a sign which represents the respective values of all commodities."

"A metal is also the most proper for a common measure, because it can easily be reduced to the same standard in all nations; and every particular nation fixes on its own impression, that the weight and standard (wherein consists the intrinsic value) may both be known by inspection only."

“The coining of money is in all states the act of the sovereign power; for the reason just mentioned, that its value may be known on inspection. And, with respect to coinage in general, there are three things to be considered therein: the materials, the impression, and the denomination. With regard to the materials, Sir Edward Coke lays it down that the money of England must either be of gold or silver; and none other was ever issued by the Royal authority till 1672, when copper farthings and halfpence were coined by King Charles II., and ordered by proclamation to be current in all payments under the value of sixpence, and not otherwise. As to the impression, the stamping thereof is the unquestionable prerogative of the crown; for though divers bishops and monasteries had formerly the privilege of coining money, yet, as Sir Matthew Hale observes, this was usually done by special grant from the king, or by prescription, which supposes one; and therefore was derived from, and not in derogation of, the Royal prerogative.”—*Blackstone's Commentaries*, B. i. c. 7.

“Sir Matthew Hale has expressly delivered it as his opinion, *that the legitimation of money, and the giving it its denominative value, is justly reckoned inter jura majestatis; and in England it is one special part of the king's prerogative.*” —*Lord Liverpool*, p. 127.

I have said (p. 3, *antè*) in the first part of this Treatise, “In our coins of circulation the only *money*, as a *measure of value*, is the ‘sovereign,’ named, in money of account, the ‘pound sterling.’ It is desirable that the integer money of account and the integer coin—the *legal tender* coin—should be the same. We have this great advantage, and it would clear the subject of ambiguity if the same name were given to both—the pound sterling and the sovereign being one thing. The pound of account should be called a sovereign or the sovereign a pound; both having the same name, the identity could not be doubted.”

Sir Robert Peel, on introducing the Bank Bill to the consideration of the House of Commons, on May 6, 1844, after alluding to the “vast and manifest importance” of the question, observed (p. 3): “I shall,

therefore, proceed at once to call the attention of this Committee to a matter which enters into every transaction of which money forms a part. There is no contract, public or private—no engagement, national or individual, which is unaffected by it.”—P. 137, *antè*.

(P. 7).—“My first question, therefore, is, what constitutes this measure of value? What is the significance of that word ‘a pound,’ with which we are all familiar? What is the engagement to pay a ‘pound?’ Unless we are agreed on the answer to these questions, it is in vain we attempt to legislate on the subject.”

(P. 8).—“The whole foundation of the proposal I am about to make rests upon the assumption that, according to practice, according to law, according to the ancient monetary policy of this country, that which is implied by the word ‘pound,’ is a ‘certain definite quantity of gold with a mark upon it to determine its weight and fineness,’ and that the engagement to pay a pound means nothing, and can mean nothing else, than the promise to pay to the holder, when he demands it, that definite quantity of gold.”—See p. 138, *antè*.

Sir Robert Peel identifies “the pound” with the measure of value, with *money*; but his definition is not correct as applied to money; the “pound,” the pound sterling, known by the name of the “sovereign,” is more than “a certain definite quantity of gold with a mark upon it to denote its weight and fineness.” Money is more than this, and the money of this country is well-defined in the following Act:—

CAP. 74.

“An Act to enable Her Majesty to declare Gold Coins to be issued from Her Majesty’s Branch Mint at Sydney, New South Wales, a legal tender for payments; and for other purposes relating thereto.”—28th July, 1863.

56 GEO. III. c. 68.

“Whereas, by an Act of the Fifty-sixth year of the reign of His late Majesty King George III., chapter 68, intituled,

‘An Act to provide for a new Silver Coinage, and to regulate the Currency of the Gold and Silver Coins of this realm,’ it is, amongst other things, provided that, after the date of the passing of that Act, the gold coin of the realm should be the only legal tender for payments (except the silver coin of the realm, to the extent of forty shillings) within the United Kingdom of *Great Britain and Ireland*: And whereas, by the same Act it is declared that the gold coin of the realm should hold such weight and fineness as are prescribed by an indenture therein referred to, and made with His Majesty’s master and worker of the Mint, for making gold monies at His Majesty’s Mint in London, and with such allowance, called the remedy, as is given to the said master by the said indenture, which weight and fineness are by the said Act declared to be the standard of the lawful gold coin of the realm, so far as relates to the gold coins of the denominations in use at the time of the passing of the said Act, and specified in the said indenture: And whereas, gold coins of the weight and fineness, and of the denominations mentioned in the said Act, and specified in the said indenture, have, from the date of the said Act up to the present time, continued to be issued from Her Majesty’s Mint in London, and to be the only legal tender for payments, except as aforesaid, within the United Kingdom: And whereas Her Majesty has, by proclamation, established at Sydney, in New South Wales, a Branch of the Royal Mint for making gold coins, of the same weight and fineness and of the same denominations as the gold coin issued by Her Majesty’s Mint in *London*, and has appointed a deputy-master of the said Branch Mint; and it is expedient that power should be given to Her Majesty to make the gold coin so issued by Her Majesty’s Mint at *Sydney* a legal tender for payments in the United Kingdom: Be it therefore enacted by the Queen’s Most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

“1. Power to Her Majesty to declare gold coins made at the Branch Mint at Sydney a legal tender in the United Kingdom.

“It shall be lawful for Her Majesty, by proclamation issued with the advice of her Privy Council, to declare that, after a date specified in such proclamation, gold coins, made at the said Branch Mint, of designs approved by Her

Majesty, at Sydney aforesaid, and being of the same weight and fineness as are required by law with respect to gold coins of the same denominations made at Her Majesty's Mint in London, are to be a legal tender for payments within the United Kingdom of Great Britain and Ireland; and upon such proclamation being issued, gold coins made of such designs, and being of such weight and fineness as aforesaid, shall be a legal tender for payments accordingly.

"2. Power to Her Majesty to impose a charge on coining Gold.

"It shall be lawful for Her Majesty, by proclamation issued with such advice as aforesaid, from time to time, to impose on the coinage of gold, at the said Branch Mint at Sydney, a charge sufficient to defray the expenses of coinage, over and above the expenses of assay and refining; and it shall be incumbent on the said deputy-master to coin gold at the charge so imposed.

"3. Short title.

"This Act may be cited for all purposes as 'The Sydney Branch Mint Act, 1863.' "

In the preamble to this Act, passed so late as July 28, 1863, it is declared that by the 56 Geo. 3, c. 68 (1816), it was provided that "the gold coin of the realm should be the only legal tender for payments (except the silver coin of the realm to the extent of forty shillings) within the United Kingdom of Great Britain and Ireland;" by the same Act it was declared that the gold coin of the realm should "hold such weight and fineness as are prescribed by an indenture therein referred to, and made with His Majesty's master and worker of the Mint for making gold monies at His Majesty's Mint in London;" "which weight and fineness are by the said Act declared to be the standard of the lawful gold coin of the realm;" that such gold coins "have, from the date of the said Act up to the present time, continued to be issued from Her Majesty's Mint in London, and to be the only legal tender for payments, except as aforesaid, within the United Kingdom, &c."

These gold coins are the "sovereigns" or "pounds,"

and "half-sovereigns," thus declared by the said Act to be "the only legal tender for payments, with the silver coins to the extent of forty shillings."

Let it be observed, what solemnity and what sanctions accompany the introduction of the coins of the same weight and fineness, coined at Her Majesty's Mint at Sydney, into the currency of the United Kingdom as a legal tender for payments:—"Be it therefore enacted by the Queen's Most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same."

Sir Robert Peel did not over-estimate the importance of a true interpretation of the word "pound," being the subject of the contract or engagement expressed in the Bank of England note, but he has attached a wrong meaning to the word; his definition would apply to uncoined gold, to bullion, to ingots of gold with a mark to denote their weight and fineness, instead of being limited to the gold coin, the sovereign, proclaimed with all due formalities and legal sanction to be "the only legal tender for payments," with the auxiliary coins of silver to the amount of forty shillings in the United Kingdom, as expressed in the preamble to the Sydney Branch Mint Act, 1863. The promise and the obligation of the Bank of England note is to pay a certain *sum of money*; a certain number of "sovereigns," not a "definite quantity of gold with a mark upon it to determine its weight and fineness." That definition may apply to an ingot of gold.

Sir Robert Peel (p. 22):* "There is a material distinction, in my opinion, between the character of a promissory note payable to bearer on demand, and other forms of paper credit, and between the effects which they respectively produce upon the prices of

* Sir Robert Peel's Speeches on introducing the Bank Bill, 1844.

commodities and upon the exchanges. The one answers all the purposes of money, passes from hand to hand without endorsement, without examination, if there be no suspicion of forgery; and it is, in fact, what its designations imply it to be,—currency or circulating medium.”

The Bank of England promissory notes and bills of exchange are equally contracts to pay “pounds”—“sovereigns”—a sum of money; the money is the same in both contracts: where, then, is the difference?

The distinction is this:—The merchants pay their bills of exchange in *money*, or in bank-notes payable in money, in sovereigns: the Bank of England pay their notes, when demanded, in uncoined gold, in merchandise, in *bullion* for the foreign trade; and this mode of payment brings the Bank of England, as bullion merchants, into competition with the owners of other articles of exportation, though not so convenient, under existing circumstances, as bullion. To pay “pounds” is the extent and limit of the obligation expressed in the bank-note and bill of exchange: it is no part of the contract to pay bullion; and this *self-imposed* obligation the Bank of England, I submit, should utterly disavow.

Sir Robert Peel stated—“The whole foundation of the proposal I am about to make rests upon the signification of the word ‘pound.’ ” I submit that his definition of the “pound” is erroneous, and the superstructure which he has raised upon that foundation is unsound. The “pound” is the name of a piece of gold money, or coin called a “sovereign,” known by inspection only, by its “impression,” to be the *lawful money* of the realm; and the engagement to pay “pounds” is the promise to pay “sovereigns,” whether expressed in bank-notes or in bills of exchange, being in either case a contract to pay money. But when the meaning of the word “pound” is extended to bullion, which is not money, but mer-

chandise, to a commodity which is not money in this country, or in any civilised community where money has been introduced, then confusion prevails with a departure from the obvious meaning of the word.

P. 8.—Sir Robert Peel refers to the ancient “monetary policy of this country;” but the extracts I have given (p. 463) do not countenance his definition.

P. 11.—He refers also to Mr. Harris, “an eminent writer on the subject, a century before the Bank Restriction Act.”

Mr. Harris: “In England, accounts are kept by the pound sterling, which is a certain quantity of fine silver, *appointed by law* for a standard.” (He was writing at a time when silver was the standard in England). He treats only of coins.

P. 9.—He refers to the Bullion Committee. “A Committee was appointed to inquire into the subject, and opinions, not really novel, but at that time very startling, were enounced, to the effect that the ‘pound’ meant, in fact, nothing else than a definite quantity of the precious metals, and that those who promised to pay a pound ought to pay that quantity.”

The words of the Committee are—“Your Committee, therefore, report it as their opinion that the circulating medium of this country ought to be brought back with as much speed as is compatible with a wise caution to the original principle of cash payments, at the option of the holder of bank paper.”* The Committee refer only to the *circulating medium*, and *cash payments*, as they existed before the Bank Restriction Act; they say nothing of payments in bullion, and this *fundamental error* of our monetary system, the payment of Bank of England notes in bullion, appears not to have been questioned.

* Francis : History of the Bank of England, v. i. p. 286.

CHAP. IV.

ON THE ACT OF 1816 : GOLD COIN DECLARED TO BE THE ONLY LEGAL TENDER FOR PAYMENTS WITHOUT LIMITATION, AND SILVER COIN FOR 40s.—SIR ROBERT PEEL DOES NOT ALLUDE TO THIS ACT — BANK NOTES AVAILABLE ONLY IN THE NATIONAL CIRCULATION—A LIMITATION IN THE DENOMINATIVE VALUE OF BANK NOTES SUGGESTED—ON THE SCOTCH BANKS—ON A BULLION BANK OR WAREHOUSE—ON THE INCREASE OF TRADE IN GREAT BRITAIN AND IN THE UNITED STATES.

IN the preceding Chapter will be seen a copy of the Act legalizing, under certain conditions, the currency in Great Britain and Ireland of the gold coins made at Her Majesty's Mint at Sydney. As that Act was founded upon the principle declared in the Act 56 Geo. III. c. 68, respecting the measure of value, I think it well to refer more particularly to certain clauses of this Act, dated June 22, 1816.

Certain Acts and portions of Acts were repealed, and among them the Acts cited in my book, p. 17, *antè*.

Clause 4 enacts that the pound troy of standard silver, eleven ounces two pennyweights fine, may be coined into sixty-six shillings.

Clause 11 is as follows:—

And whereas at various times heretofore the Coins of this realm, of Gold and Silver, have been equally a legal tender for payments to any amount, and great inconvenience has arisen from both those precious metals being concurrently the standard measure of value, and equivalent for property; and it is expedient that the gold coin made according to the indentures of the Mint should henceforth be the sole standard measure of value and legal tender for payment, without any limitation of amount, and that the silver coin should be a legal tender to a limited amount only, for the facility of exchange and commerce; be it therefore

enacted, That from and after the passing of this Act, the gold coin of this realm shall be and shall be considered and is hereby declared to be the only legal tender for payments (except as hereinafter provided) within the United Kingdom of Great Britain and Ireland; and that the said Gold Coin shall hold such weight and fineness as are prescribed by the present indenture with His Majesty's Master and Worker of the Mint for making gold monies at His Majesty's Mint in London, and with such allowance, called the Remedy, as is given to the said Master by the said indenture; which weight and fineness are hereby declared to be and shall remain to be the standard of and for the lawful Gold Coin of the realm, so far as relates to gold coins of the denominations at present in use, and specified in the said indenture; and in case any gold coin or coins of any other denomination shall hereafter be coined at the said Mint under any future indenture, such gold coin and coins shall hold the like standard in fineness as the gold coins of the present denominations, and shall hold such weight as shall be proportionate to the weight of the present gold coins, according to the value for which such gold coin or coins of any new denomination shall be declared to be current.

Clause 12.—No tender of silver coin legal beyond 40s.

By these very important clauses the expediency of a single standard was declared, and "That after the passing of this Act, the gold coin of this realm shall be and shall be considered, and is hereby declared to be, the only legal tender for payments (except as hereinafter provided) within the United Kingdom of Great Britain and Ireland."

This Act has not been repealed and is still in force, as shown by its being introduced as the Preamble to "The Sydney Branch Mint Act."

It is remarkable that Sir Robert Peel, when he expressed his fears, p. 7, "that there is still a very material difference of opinion as to the real nature and character of the measure of value in this country," did not appeal to the 56 Geo. III. c. 68. This would have settled the question on the authority of an Act of the legislature.

The Committee make no distinction between the payment of bank notes in coin, and the payment of those notes in bullion or uncoined masses of gold—but those payments are quite distinct from each other—the domestic circulation of bank notes is based upon confidence in the “fortune, probity, and prudence” of the banker, who promises an immediate and unconditional payment of the notes in coin, when demanded; this is the foundation of the circulation of bank notes, “which have the same currency as gold and silver money, from the confidence that such money can at any time be had for them,” but this confidence cannot be made to supply the place of money abroad, and however great the confidence in the “fortune, probity, and prudence” of bankers, whether the Bank of England, or other banks, their notes are utterly unavailable abroad, and cannot be made available beyond the domestic circulation.

Adam Smith (see p. 192, *antè*) suggests the limitation of bank notes to a certain denomination, that is, a sum not less than five pounds, in order to insure a sufficiency of gold coin. I submit that bankers should be restrained from issuing bank notes above a certain sum or denomination: the circulation could easily spare them, and would not spare the 5*l.* and 10*l.* notes: the place of the large notes should be supplied by cheques and bills after date, and other banking expedients; the domestic circulation should be exempt from all demand for gold for exportation, and the merchants should provide themselves with bullion, as with any other commodity for exportation. Adam Smith B. 2, c. 2, observes:—

“To restrain private people, it may be said, from receiving in payment the promissory notes of a banker, for any sum whether great or small, when they themselves are willing to receive them; or to restrain a banker from issuing such notes, when all his neighbours are willing to accept of them, is a manifest violation of that natural liberty, which it is the proper business of law not to infringe, but to support. Such regulations

may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments, of the most free as well as of the most despotical. The obligation of building party-walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are proposed."

It will be observed that Adam Smith's argument would apply to the prohibition of notes, whether *great or small, which might endanger the security of the whole society*.

I think the large notes may occasion great embarrassment, that they may be a powerful engine in the hands of money dealers; and may be withdrawn or thrown into the money market to such an amount as to affect the prices of securities. They are also principally employed in withdrawing bullion, and if the bullion were removed from all connexion with the circulation, and deposited, not in a separate department of the bank, but like other merchandise in a bank or bonded warehouse (see Chap. ix.*), the property of separate individuals, and the notes were of that denomination only which are needful for the national circulation, and competition of banks in the circulation of notes were allowed, I believe we should seldom or never hear of a commercial crisis, which is more properly a money or monetary crisis.

We are informed by the Report, sec. 4, "The 5*l.* and 10*l.* notes of the Bank of England, which in 1851 were 9,362,000*l.* had risen in 1856 to 10,680,000*l.*" and in sec. 5, "at the same time, for a reason which will presently be noticed, a great diminution has been observable in the use of notes of 200*l.* and upwards;" sec. 7, "bank notes of 200*l.* to 1,000*l.*, in 1852, 5,856,000*l.*, in 1857, 3,241,000*l.*"

* Chapter 9, p. 106, *antè*. "On the application of the bonding system to gold and silver."

The large notes were no longer wanted at the clearing house—the balances being adjusted by transfers, instead of Bank of England notes. The same principle might be extended and the large notes dispensed with, and banking expedients, cheques, transfers, and bills, might supply their place.

We have seen in* secs. 3, 4, 5, 6, 7, that the gold coin can be increased about 30 per cent. the 5*l.* and 10*l.* notes two millions, and the larger notes of 200*l.* to 1000*l.* diminished to nearly the same amount, without any disturbance to private credit or inconvenience to the public.

When we read in sec. 8, “We know that one broker had five millions, and we were led to believe that another had between eight and ten millions; there was one with four, another with three and a half, and a third above eight. I speak of deposits with the brokers.”

Surely it should not be required to pay these large sums in bank notes, and in the notes of one bank, the Bank of England.

If we recur to “The communications from the Treasury to the Bank of England in the year 1826, and to the answer of the Bank thereto, relating to the provisions of the Bill, then in progress through Parliament, for the regulation of banking companies in England,” as given by J. Horsley Palmer, Esq., at the end of his pamphlet on “Causes and Consequences of the Pressure upon the Money Market, from October 1, 1833 to December 27, 1836,” we shall find that among the objects then sought to be attained were, “to diminish the pressure upon the bank and the metropolis, incident to an unfavourable state of the exchanges,” and “to counteract the inconveniences incident to an export of the precious metals.” Those objects were sought to be attained by the suppression of the issue of one and two pound notes by the country banks, and by the establishment of Joint-stock banks.

* Report.

The treasury (Lord Liverpool and Frederick Robinson, Esq.), observe, "The failures which have occurred in England, unaccompanied as they have been by the same occurrences in Scotland, tend to prove that there must have been an unsolid and delusive system of banking in one part of Great Britain, and a solid and substantial one in the other."

"In England there are said to be between eight and nine hundred country banks.

"In Scotland there are not more than thirty banks, and these banks have stood firm amidst all the convulsions in the money market in England, and amidst all the distresses to which the manufacturing and agricultural interests in Scotland as well as in England have occasionally been subject."

I would strictly enforce the payment of bank notes in coin, and prohibit the payment in bullion, as being foreign to the contract expressed in the note, which is to pay money, not merchandise.

It must be remembered that the banks in Scotland were competing banks of issue, and were relieved from all demand for bullion for exportation; that is the position in which I would place the Bank of England, and all other banks, by withdrawing the monopoly of the Bank of England, and by the establishment of a deposit bank for bullion in London, and some other principal ports; the merchants supplying themselves with bullion as with other merchandise, in bond, for exportation.

This might be easily accomplished in London, by substituting for the present issue department a bullion deposit bank, for receiving the bullion of individuals, as the bullion is now received in the issue department; and giving each individual depositor a credit for his deposit, at the rate of 3*l.* 17*s.* 9*d.* per oz. instead of giving him bank notes, and leaving it to the depositor either to withdraw at any time, the whole or part of his deposit, or to transfer it to any other person, and charging on each transfer a small com-

mission, or perhaps no commission at first, to induce the merchants and bullion dealers to make deposits, and by prohibiting the Bank of England from paying their notes in bullion, or dealing in any way with bullion, their business being confined to bank notes of 5*l.* and 10*l.*, and coins, having reference only to the domestic circulation.

Bullion might be received by the Bank of England as any other asset, on which money was to be advanced.

The present issue department of the Bank of England to be suppressed.

Lord Overstone (3648) refers to the increase of the exports and imports from 1845 to 1857, during the thirteen years that the Bank Act of 1844 has been in operation, as a proof that the trading and commercial interests have not been injured by the operation of that Act, and the Report of the Committee, sec. 1, states, "The exports which before 1848 had never exceeded 60,110,000*l.*, the amount which they attained in 1845, have risen with little variation and with great rapidity; and in 1857, notwithstanding the severe commercial pressure which marked the latter portion of that year, they stood at 122,155,000*l.*"

P. 144.—In the Report of the Boston Board of Trade for 1861, I find the following statement of the exports and imports of the United States at the periods of 1845 and 1857.

		DOLLARS.
Exports in 1845 of domestic and	}	114,646,606
foreign produce . . .		
„ 1857 . . .		362,960,682
Imports in 1845 . . .		117,254,564
„ 1857 . . .		360,890,141

It will be observed that in the United States, where the banking system is represented as so unsound, the

exports and imports increased in a greater proportion than in the United Kingdom.

The discoveries of gold have doubtless greatly contributed to the general prosperity of commerce and industry, as well by gradually raising the prices generally of commodities, as by opening new markets, and furnishing to the countries which have those mines the means of purchasing the produce of distant countries, to the great advantage of both.

CHAP. V.

THE ACT OF 1819—MR. RICARDO'S PLAN—IT HAD NO RESULT—
SIR R. PEEL ON THE ACT OF 1819—THEORY OF THE BANK
ACT—SIR ROBERT PEEL ON THE STANDARD OF VALUE—AN-
NOUNCES TWO SORTS OF MONEY—ON TWO AND THREE SORTS
OF MONEY—ON THE OBLIGATION OF THE BANK NOTE—EVI-
DENCE ON EXCESSIVE ISSUES BY BANKS, WITH REMARKS.

IN the first clause of the Act, 49 Geo. III. c. 49, known as the Act of 1819, being dated the 2nd of July of that year, it is stated:

“Whereas it is expedient that the restrictions on payments in cash by the said Bank should be continued beyond the time to which such restrictions are at present limited, and that a definite period should be fixed for the termination of such restrictions, and that preparatory measures should be taken with a view to facilitate and ensure, on the arrival of that period, the payment of the promissory notes of the Bank of England in the legal coin of the realm:”

“Be it therefore enacted by the King's Most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, that the several recited Acts (restraining the Bank of England from making payments in cash) shall be, and the same and every of them is and are hereby further continued until the first day of May, one thousand eight hundred and twenty-three, and that from and after the first day of May, one thousand eight hundred and twenty-three, the restrictions on payments in cash under the said several Acts shall finally cease and determine.”

The “preparatory measures” are expressed in the following clauses:—

By Clause 2. It was enacted that between February 1st and October 1st, 1820, the Bank shall pay in standard gold

for notes tendered to an amount not less than the value of 60 ozs., calculated after the rate of 4*l.* 1*s.* per oz.

Clause 3. Between October 1st, 1820, and May 1st, 1821, such payments shall be made in gold, calculated after the rate of 3*l.* 19*s.* 6*d.* per oz.

Clause 4. Between May 1st, 1821, and May 1st, 1823, such payments shall be made in gold, calculated after the rate of 3*l.* 17*s.* 10½*d.* per oz.

Clause 5. But the Bank may, between February 1st and October 1st, 1820, make payments at any rate less than 4*l.* 1*s.*, and not less than 3*l.* 19*s.* 6*d.* per oz.; and between October 1st, 1820, and May 1st, 1821, may pay at a rate less than 3*l.* 19*s.* 6*d.*, and not less than 3*l.* 17*s.* 10½*d.*, on giving three days' notice in the Gazette, &c.

Clause 6. Such payments to be made in ingots or bars of the weight of 60 ozs.

Clause 7. Fractional sums of less than 40*s.* to be paid in silver.

Clause 8. Provided also, and be it further enacted, "That the Governor and Company of the Bank of England, if they shall see fit, may at any time on or after the first day of May, one thousand eight hundred and twenty-two, pay or exchange the lawful coin of the realm for any note or notes of the said Governor and Company, payable on demand,—any provisions in the said before recited Acts, or in this Act, to the contrary notwithstanding."

Clause 9. Bank to deliver to Privy Council weekly accounts of average amount of their notes in circulation.

Clause 10. Gold and silver coin may be exported and melted.

Clause 11. So much of the Acts herein recited as respects the melting or exportation of gold, or silver, or bullion, repealed.

It will be observed that this Act legalized as "preparatory measures" the payment of Bank of England notes in uncoined standard gold, "if tendered to an amount not less than the value of 60 ozs."

This was at variance with the 11th clause of the Act, 56 Geo. III. c. 68, which declared that "the gold coin made according to the indentures of the Mint should henceforth be the sole standard measure of value and legal tender for payment, without any limitation of amount."

Sir Robert Peel refers to the Bank Act of 1819, p. 53. "Considering the part which I took in the year 1819, in terminating the system of inconvertible paper currency," &c.; and p. 77: "The present measure is not an extension of the principle of the Act of 1819: it is the fulfilment and complement of that Act; but it does not carry the principle of a metallic standard further than it was carried by the Act of 1819."

M. Ricardo's plan was without any result; of 2,028 ingots only 13 were sold, and 2,015 were returned to the Mint, and coined into sovereigns. (Haggard, p. 34.)

The Act of 1816, which declared the "gold coin" to be the only legal tender for payments to any amount, is not alluded to by Sir Robert Peel, and my attention had not been directed to that important Act, which also saved this country from the "inconvenience" of a double standard, a silver and a gold standard, propounded by the French economists, on the plausible but erroneous maxim, that he who could not pay in silver money might pay in gold money; that the silver and gold coins should reciprocally buy each other, and was adopted in the Edict of Henri III., in 1577, when the standard of value was changed from silver to gold, recorded by Le Blanc, p. 354: "*Avec promesse en foy et parole de Roy pour nous et nos successeurs, d'entretenir et conserver pour toujours le dit escu (the gold crown) en son poids et bonté interieure———et sur ce pied et fondement faire la correspondance de toutes autres especes, tant d'or que d'argent et billon, a ce que l'une accepte l'autre.*"

By the "preparatory measures" adopted, it was thought that the difference between the value of Bank of England notes and gold, then about 4 per cent., might be thrown over two or three years, and that the loss to the community would not exceed this difference; but how was the gold to be procured?

That is explained in the memorandum delivered by the Directors to the Parliamentary Committee of 1832:—

“That supply of gold could only be purchased by reduced prices of commodities; the Bank withdrawing a given amount of securities, in the first instance, the notes for which might be reissued in payment of the gold as imported.” (See p. 127, *antè*.)

The scarcity of the circulating medium by the withdrawal of notes, and its consequences, caused, I conclude, a reduction in the prices of goods, the property of others, and these goods were exported to pay for the gold, which, *when imported*, the Bank of England notes would purchase, as they would buy any other commodity; abroad, their notes were unavailable for this purpose.

Sir Robert Peel (p. 21) disapproved of the principle of making the bank notes payable only in large sums, as stated in the Act of 1819, known as M. Ricardo’s plan, and considered “that the most effectual measure for promoting permanent confidence in the paper circulation of the country, is to require that the gold coin shall be in general use for small payments, and that the promissory note shall be of equal value with the coin which it professes to represent.” (See p. 141, *antè*.)

This is according to the new theory “that the promissory note shall be of equal value with the coin which *it professes to represent*,” instead of “that the promissory note shall be paid on demand in the coin which *it promises to pay*.”

In Section 62 of the Report it is stated, “Those who advocate what is called the theory of the Act of 1844, are guided by the following principles. They regard bank notes as being for every practical purpose, equally with the gold they represent, the money of the country—the measure of value—that which extinguishes debt—not as a mere form of paper credit, depending on the credit of the issuer, and

constituting only the evidence and vehicle for transfer of a debt which still continues."

Here is an avowal of what I expressed to be my conviction, p. 367 *antè*, "that by the Act of 1844, it was attempted to establish 'the *false* principle of a double standard,' 'two measures of value,' bank notes and gold, 'paper money and gold money.'" As it would be inconsistent to give in exchange for the bullion, at the issue department, a promise to pay ten pounds, and to assert that the debt was cancelled and nothing owing, which would be directly in contradiction to the tenour of the note, the words are not to be interpreted in * "their plain, true, honest sense," but (3648) "bank notes should be treated as tokens or representatives of the current coins;" "they are certificates or representatives of bullion:" here coin and bullion are confounded; if they represent bullion they would not represent "the money of the country," as bullion is not money; nor are bank notes money; the only money being the "sovereign" with the ancillary coins; bullion does not circulate as money, it does not circulate at all; nor do bank notes fulfil the condition of money, not being constituted by lawful authority a legal tender everywhere; and the bill of a banker, or of a merchant of undoubted credit, practically "extinguishes debt" as well as bank notes, and to an infinitely greater extent.

The bullion was an asset of the Bank of England, liable, like the other assets of securities, bills, &c., to the payment of the bank notes, and to the other engagements of the bank, with a guarantee fund of seventeen millions. The security of the Bank of England note is above suspicion, and is not at all strengthened by any particular asset, such as bullion, being appropriated exclusively as its security.

Sir Robert Peel's Speeches, p. 19. "I trust, however, this House will adhere to the present standard—will resolve on the maintenance of a single standard,

* Locke: p. 234, *antè*.

and of gold as that standard." Is not this inconsistent with what follows?

P. 22 and p. 142 *antè*. "I must state, at the outset, that in using the term money, I mean to designate by that word, the coin of the realm and promissory notes payable to bearer on demand. In using the word paper currency, I mean only such promissory notes. I do not include in those terms bills of exchange, or drafts on bankers, or other forms of paper credit;" and, p. 25, he defines paper currency as "the substitute for, and immediate representative of coin," and with coin it constitutes "money."

And, p. 25 (p. 143 *antè*), "if you will adhere to the standard of value, and will adopt such measures as shall ensure the uniform equivalency of bank notes to coin, &c."

Money is the standard of value, and as both coins and bank notes are considered "money," we have two standards of value; and "to ensure the uniform equivalency of bank notes to coin" is propounded to be the same as to perform the promise or agreement to pay coin.

He afterwards says, p. 30 (p. 147 *antè*), "The crisis comes—there is a demand for gold which cannot be satisfied, and the end of all is, much individual suffering and many fortunes ruined, from the necessity of a sudden and violent effort to establish, by the contraction of issue, an equilibrium between gold and paper."

As *equivalency* of bank notes to coin was before considered equal to *payment* in coin, so now an equilibrium between *gold* and paper, by a contraction of issue, is considered equal to an equivalency between bank notes to coin, and to payment in coin.

But neither "equivalency of bank notes to coin," nor an equilibrium between "gold and paper," will alter the nature of "money" or of a promise to pay "money"—we have only one measure of value and one money, the "sovereign;" our standard of *value*

is a gold coin, and we have, therefore, a gold standard; but uncoined gold or bullion is not a standard of value, nor is a *promise* to pay "coin" or sovereigns "money;" there is a distinction between equivalency to coin which has reference to the national or domestic circulation, and equilibrium to *gold*, which appears to have reference to bullion for the foreign demand; this *equilibrium* must mean an equilibrium between the value of exports and imports, which is established by "contraction of issue" by lowering the prices of goods, which occasions "much individual suffering and many fortunes ruined;" this the Bank of England should have no power to inflict either directly or indirectly; it does not result from any obligation of the Bank, which is limited to the payment of the "pound," which is money; and no government or corporation should sanction this interpretation of the bank note, at the great cost of the community, to the benefit of some and loss of others.

Sir Robert Peel announces two sorts of money, two standards of value, "The coin of the realm and promissory notes payable to bearer on demand."

Lord Overstone announces three sorts of money, and, consequently, three standards of value, "3648." "The supply of the current coin, that is, the *money of the realm*, ought to be entirely separated from banking business, &c. "3651." "The operation of the Act of 1844 is this, that the bank notes, in other words, the *money of the country*, must decrease as the drain of bullion goes on," &c. 3819, 255 *antè*. "The various conditions of different countries assign a certain portion of the precious metals of the world to each country, and the portion so assigned to each country for the purpose of acting as the universal equivalent is the *money of that country*."

Here "the current coin" is "the money of the realm." "Bank notes" are "the money of the country;" and "a certain portion of the precious metals" is the "money of that country."

How much confusion is introduced by a departure from the plain meaning of words—what can be more intelligible or expressed in more ordinary or direct language than the Bank of England note—"I promise to pay the bearer on demand ten pounds"—an acknowledgment of a debt and a promise to pay it. The Bank of England, and all borrowers who promise to pay "pounds," promise to pay "sovereigns," money, "not promissory notes," not a "certain portion of the precious metals."

To pay "pounds" is the extent and limit of the obligation contracted by the bank note or by the bill of exchange; the obligation extends no further. Bullion is not money but merchandise; and the best proof that bullion is only merchandise may be found in the fact that the Bank of England, by its great command over credit, by contraction of issue, or by raising the rate of interest, lowers the prices of *other* commodities, and these commodities, *the property of others*, are substituted for the bullion which would be the most convenient *commodity*, but which the Bank cannot itself purchase from abroad with *commodities*, and which is needful to the banking department, in order to procure bank notes from the issue department.

It is worthy of notice that Adam Smith in the extract from his "Moral Sentiments," p. 122, *antè*, adduces in illustration of the imperative obligation of "Justice," and of the great exactness which that virtue requires. "If I owe a man ten *pounds*, justice requires that I should precisely pay him ten pounds, either at the time agreed upon, or when he demands it"—whether the pounds be payable on demand or at a time agreed upon, whether the engagement be immediate payment, or payment after date, alters neither the *moral* obligation nor the *pounds* to be paid. Justice in either case requires the same exactness—the payment of the *pounds*, either at a time agreed upon or when he demands it;—both engagements, both *promises* are placed in the same category, whether bank notes or bills payable after date.

The following extracts from Lord Overstone's evidence I consider very valuable, as showing the result of our system of banking for a long series of years ; and, in my humble opinion, how unsatisfactory it has been, *before* and *after* the passing of the Bank Act of 1844.

3795. July 7, 1857.—Lord Overstone. “ Then under the most adverse circumstances of a drain of bullion, when it was stated that the bank was within twenty-four hours of a state of barter, these 1*l.* notes which came out of the bank, so far from being discredited, staved off the panic ? ” —“ They were not discredited in the slightest degree.” (The period alluded to is 1825.)

3796. “ I understood your Lordship to state that on those three occasions the convertibility of the note was suspected ? ” “ Yes, the bank note was not discredited for internal purposes, but it was very seriously discredited for external purposes. A person holding the Bank of England note as a means of obtaining bullion to remit abroad, felt exceedingly anxious as to its command of bullion, but a person holding 100,000 1*l.* notes for the purpose of internal payment of wages in the country felt no difficulty at all ; he said, ‘ They will answer my purpose in that respect.’ ”

3797. “ There is no fear of the convertibility of the note, so far as the domestic exchanges are concerned, provided they are limited in quantity ? ” —“ There is no fear of the convertibility of the note with regard to the external or domestic exchanges, if they are properly limited in quantity.”

3896. “ I consider that the main object and purpose of the Act of 1844 had not reference to the security of the note between the different members of the country, but that it had reference to the security of the note in the sense of taking care that the aggregate amount of the paper money of the country should never be carried to such an extent that it could admit of the bullion being drained out. All the other considerations are quite subordinate to that.”

It will be found that it is the demand for *bullion for exportation* which occasions the disturbance ; and

the endeavour to prevent this demand introduces contraction of the circulation, or a high rate of interest, with the consequent check to credit and low prices of commodities.

4173. "You stated in the evidence which you gave both on the last occasion and on the preceding day, that in your opinion the issue of the paper money of this country had on many occasions been in a most unsatisfactory and dangerous state previously to 1844?"—"I did."

4175. "What are the periods to which you allude?"—"The periods to which I allude are 1783, 1793, 1797, 1800, 1808-9, 1825, and 1833 to 1837, contrasted with the state of things subsequent to 1844."

His Lordship had (4174), in a preceding general statement of the causes which produced the disasters of the several periods, attributed those disasters to "excessive issues by banks, made at their own discretion and will, in obedience to the supposed wants of customers"—"whilst the rapid diminution of the bullion required a contraction of the paper issues," and "that, had the provisions of the Act of 1844 been then in operation, the evils which occurred at those periods could not have occurred."

4176. "Will you state how the issues of paper money, in your opinion, operated in the year 1783?"—"In 1783 and 1795, a severe exhaustion of the bullion was surmounted, and the exchanges were effectually stopped by a resolute and extraordinary degree of contraction of the circulation."

4177. "What is the next period to which you refer?"—"The next period to which I refer is 1793, in which a great destruction of bank paper, occasioned by contraction of the currency, consequent to its previous over issue, took place." "The currency having become redundant, the exchanges took an unfavourable turn in the early part of 1792; and the Bank of England having been in consequence obliged to narrow her issues, a most violent revulsion took place in the latter part of 1792 and the beginning of 1793."—(*Mr. McCulloch.*)

Mr. Macpherson describes "the general calamity," and observes, "The natural and unavoidable consequences of a previous overflow of paper, a fall in the exchanges, and an exportation of bullion, took place early in 1792, or about twelve months before the breaking out of hostilities."

4178. "What is the next period to which you refer?"—"The next period to which I refer is 1797. Mr. Tooke distinctly states, referring to this period, that, had the Bank continued to suppress notes as the gold went out, the crisis would have been got over. It seems to me to be a distinct statement that, had the Act of 1844 been applied to the great crisis of 1797, the crisis would have been got over; in other words, we should have escaped the suspension of specie payments."

4179. "During all these periods the bank note was by law convertible into bullion?"—"During the whole of this period the bank notes were convertible at the will of the holder."

His Lordship then alludes to the suspension of cash payments, which, his Lordship thinks, the circumstances of the times may have made it "doubtful whether the Suspension Act was not a justifiable measure."

4180. "The next period is 1800. The deficient harvest of that year caused a considerable exportation of the precious metals."

As the bank notes were not payable in coin, it seems unnecessary further to allude to this period.

4182, 4183. "We now arrive at the great crisis of 1825. Between June, 1824, and October, 1825, from ten to twelve millions of coin and bullion were exported, and during the greater part of that time the Bank was still putting out its notes, and the provincial banks issued as many as they could, till the country was deluged with paper money. In 1825, there was from thirty to forty per cent. more paper money out than in 1822."—*Pictorial History of England*.

4184. "The next period of great monetary importance

is, no doubt, the period from 1833 to 1839." "In August, 1839, the bullion was 2,444,000; the amount issued upon securities by the provisions of the Act of 1844, 14,000,000, would have made a total issue of 16,444,000; but the actual issues again at that time, with no reserve for the banking purposes of the Bank of England, were 18,014,000." After giving various statements, his Lordship proceeds:—"I submit to the Committee it is perfectly clear that the Act of 1844 would have imposed an early and most salutary restraint upon improper and mischievous over-issues, and would have rendered it impossible that monetary affairs should have reached the disastrous extremity, to which, in the absence of the provisions of that Act, the country was reduced."

4185. Lord Overstone, July 14, 1857.—"In the first place, if the accounts, as now published, had been published at that time, the state of things here set forth could not have been reached, because it would have appeared by the published accounts, long before matters reached this point, that the reserve of the Bank of England was absolutely exhausted. In the second place, this amount of notes could not have been put out; the Issue Department would not have issued such a quantity of notes. In the third place, it is quite clear that, had the accounts been then published, as they are now published, the public and the Bank would both have seen the steady, and regular, and irresistible diminution of the banking reserve; and, seeing that, they would have been compelled to resort to protective measures to make their rate of interest correspond to the increasing value of money; and in that way the reduction of bullion to anything like the amount here stated would have been absolutely impossible; in other words, we should, at that period, have done what we have done in 1847 and in 1857. We should have preserved the bullion at an amount never below 8,000,000*l.*; we should have introduced correctives in an early stage of the business. The value of money would have increased the moment the bullion began to go out of the country, and that gradual increase in the value of money would have produced a gradually increasing pressure upon all those circumstances which are the true correctives of a drain. If there ever was a case of moral consideration to which you could rationally and fairly apply the term 'demonstration,' I do not know how anything can be

demonstrated if these facts do not demonstrate, beyond all possibility of controversy, that the Act of 1844 would have protected us in every one of those periods."

Is it to be assumed that the community, the merchants, the traders, the mechanics, the labourers, would "in every one of those periods" have been perfectly passive, during a fall of prices of, perhaps, 30 per cent.—for the "increase in the value of money" is, in reality, a fall in the prices of commodities—were the directors the only persons who would be anxious to protect their interests, would the Government witness such distress as occurred in 1847 and in 1857 with indifference, did they not repeal the Act in the disastrous years of 1847 and 1857? Of what use was the 8,000,000 in the Issue Department? This bullion was of no use whatever, but the fall in the prices of commodities enabled the foreign merchants to export these *cheapened* commodities; and the ruined markets at home obliged them, in their defence, to import bullion; and what assurance do those years afford that the publication (p. 490 *antè*, 4185) of the accounts would have applied "the true correctives," or that the public would have borne the "protective measures," or that pressure upon the industry of the country is the proper corrective? Do we forget the disasters of 1847 and 1857? Is the Bank of England every thing, and the commerce, manufactures, and industry of the country, comparatively, nothing? His Lordship (4189) says: "I confidently assert that without the Act of 1844 we should in the spring of 1847 have suspended specie payments." The Treasury letters dated 25th October, 1847, and 12th Nov., 1857, removed the restrictive principles of the Act of 1844, as a remedy for the difficulties of the case.

4189. "I now pass on to 1856 and 1857. During the last two years, we have again been called upon to meet a severe and protracted drain upon the bullion, arising from war expenditure and other causes, and to deal also with a

violent disturbance in the distribution of the precious metals throughout the world."

What has the Bank of England, or any other bank, to do with the "war expenditure," with the "distribution of the precious metals throughout the world?" All these circumstances are foreign to a bank, which should only look to the honest performance of its engagements and the payment of its debts. The export of bullion is foreign to the business of a bank, as foreign as the export of tea, tobacco, or coffee. His Lordship proceeds (4189): "Suffice it to say, that by strict and prompt adherence to the principles of the Act of 1844, everything has passed off with regularity and ease, the monetary system is safe and unshaken, the prosperity of the country is undisputed, the public confidence in the wisdom of the Act of 1844 is daily gaining strength;" and, "for further practical illustration of the soundness of the principles on which it rests," the Committee are desired to "look at the present state of the trade of this country, to look at the prosperous condition of the revenue of the country, the contentment of the people," &c. Those who oppose the Bank Act would call to remembrance that, on the 12th November, 1857, within four months of this eulogy pronounced on the 14th of July, 1857, the Act was found to have produced so much disaster, and so much suffering, that instead of a "strict and prompt adherence to the principles of the Act," the most important provision of that Act, the limitation of issue, was suspended. And let it be remembered that Lord Overstone had said (4010), "I believe that the Bank during the last two years has been managed, as nearly as human affairs can be, perfectly."

4015. "Why are we recommended to abolish the separation of the accounts and to blend them into one?"—"For no other purpose than to give facility for issuing paper notes which do not strictly, faithfully, and honestly

correspond with the fluctuations of the bullion, and for the purpose of having, at given times, a quantity of paper money afloat, greater than would be the quantity of metallic money afloat, although we call it a paper money convertible into metallic money."

Two things are taken for granted, which, I submit, have no foundation in fact ; first, the paper money afloat does not correspond with the metallic money which would circulate in the absence of paper money, and should not correspond with it; the very intention and advantage of paper money is not only to supply the place of metallic money, but to render a smaller portion of metallic money needful, and to increase the banker's power of lending, in order to facilitate commercial transactions, by substituting *credit* notes for *money* or metallic payment, and the amount of bank notes ought not to fluctuate with the fluctuations of bullion, which is only merchandise, like any other asset on which the Bank had advanced money. And the rate of interest does not indicate, and has no relation to the value of *money*, of *gold* and *silver money* ; so strenuously urged (4185) and elsewhere.—See p. 254, 255, 444, 445, 446, *antè*. Adam Smith justly observes, B. ii., c. 2 :—

" The proportion between the value of gold and silver, and that of goods of any other kind, depends in all cases not upon the nature or quantity of any particular paper money which may be current in any particular country, but upon the richness or poverty of the mines, which happen at any particular time to supply the great market of the commercial world with those metals. It depends upon the proportion between the quantity of labour which is necessary, in order to bring a certain quantity of gold and silver to market, and that which is necessary in order to bring thither a certain quantity of any other sort of goods."

For his opinion on the free competition of bankers, see p. 237, *antè*. His opinion as to the necessity or use of the quantity of paper money in circulation

being *represented* by an equal quantity of gold and silver is declared as follows:—B. ii., c. 2.

“A particular banker lends among his customers his own promissory notes to the extent, we shall suppose, of a hundred thousand pounds. Though he has generally in circulation, therefore, notes to the extent of a hundred thousand pounds, twenty thousand pounds in gold and silver may frequently be a sufficient provision for answering occasional demands. By this operation, therefore, twenty thousand pounds in gold and silver perform all the functions which a hundred thousand could otherwise have performed; and if different operations of the same kind, should at the same time be carried on by many different banks and bankers, the whole circulation may thus be conducted with a fifth-part only of the gold and silver which would otherwise have been requisite.”

In considering the question of excessive issues by banks, we must not confound the issue of notes with the circulation of notes; nor the wants of customers or borrowers with the wants of the community; the borrowers want a loan of money, the community require only a sufficiency of circulating medium; the excess of notes will be returned to the issuer.

T. M. Weguelin, Esq., M.P., 29 May, 1857.—996. “Looking back over the time during which you have been connected with the Bank of England, which has comprised varying periods, sometimes of dull trade, sometimes of active trade, sometimes of speculation, and sometimes of depression, would you not say that while you have seen very great variations in the amount of the advances of capital and in the amount in securities held by the bank during the whole period, the circulation has been comparatively little affected?” —“Very little indeed.”

CHAP. VI.

ON THE COMMITTEE'S DEFINITION OF THE GOLD SOVEREIGN, AND BANK OF ENGLAND NOTES—THESE NOTES ARE ISSUED AND CIRCULATED ON CREDIT, AND ARE NOT MONEY—ON THE RELATION BETWEEN THE BANK AND THE ISSUE OF NOTES—ON THE RESUMPTION OF CASH PAYMENTS—THE REMEDY PROPOSED BY THE BULLION COMMITTEE WAS INCOMPLETE.

REFERRING to Sec. 59, p. 426, *antè*, it is said, "At the Mint, a piece of standard gold weighing 5 dwts. 3·274 grains troy, is verified by a stamp, and being then called a sovereign is returned to its owner;" but it is not simply a stamp, verifying its weight and fineness, which constitutes it gold money; it is not the stamp of the *Mint* only; this would apply to ingots of gold, which are also assayed at the Mint, and their weight and fineness verified. The sovereign is *verified as money*, by the Royal Proclamation, declaring its rate and value in the payment of debt, which distinguishes it from bullion, from *uncoined* pieces of gold, which are not *money*.

Is the process at the Mint thus described to embrace both coined and uncoined gold, bullion, agreeably to the favourite theory of the present system, money, and merchandise? Why is the "sovereign" "the gold money which alone is the standard of value in this country," that which measures the value of all the property of the kingdom thus lightly treated? Why is the money, the only money of the realm, said to be "then *called* a sovereign," *the gold coin* which bears the image and superscription of the Sovereign, and the value of which "*may be known on inspection*"?

"At the bank five times the same quantity is

received into the coffers for custody, and in return a paper called a five pound note is given to the owner of the gold." This description of the Bank would better suit a store-keeper, giving his receipt to the owner of the gold, who alone would be entitled to claim it.

As the piece of standard gold, after the verification of its weight and fineness, is said to be "*called* a sovereign," without naming by whom it is so called, so now the five pound Bank of England note, the solemn promise of the Governor and Company of the Bank of England to pay the bearer of the note on demand five sovereigns, *a definite sum of money*, instead of being described as of that paramount importance which all contracts justly claim, is termed "*a paper called* a five pound note," which is said "to entitle the owner of the gold, at his pleasure, to return the note, and demand for it sovereigns, which contain an equal quantity of bullion."

One would suppose from this description that the "sovereigns" were subservient to the bullion; they are to contain "an equal quantity of *bullion*;" the quantity of bullion seems to determine it to be money.

The bank note entitles the *bearer* to five sovereigns, not exclusively the *owner of the gold*, who deposits it, of whom the bearer may have no knowledge; if it were confined to the depositor, the owner of the gold, it would not be a *circulating* note, it would not be paper-money. Is it not the simple fact that the Bank of England, like any other bank, *pays* for the gold it buys with its *promissory* notes or *credit* notes?

Sect. 59. It is said, "so intelligible and so simple is the relation between the Government and the issue of money; so entirely is the Bank of England excluded by statute from the exercise of any discretion whatever in this respect." This is true with respect to the issue of gold money, but with respect

to the currency, which Sir R. Peel calls *money*, is it not avowed—is it not the principle of the Act that the Bank of England (p. 163, *antè*) should exercise a control over the currency, over the issue of bank notes by the banking department, by raising the rate of interest, or by the withdrawal of notes, in order to depress trade and bring bullion to the banking department; to enable the banking department with this bullion to procure notes from the issue department; or to obtain bullion with these notes for exportation; and by lowering the rate of interest to expand the commerce of the country; in order “to employ the reserve in the banking department?” (See p. 295, [608,] *antè*.)

May not the word “issue” mislead, as the expression of payment of debt? When the merchant buys *on credit*, and pays the debt by a bill of exchange payable two months after date, he does not say he has issued this paper; and when a banker, whether the Bank of England or other bank, pays for the merchant’s bill of exchange his own notes, payable to bearer on demand, he pays by credit, however secured; the merchant trades on credit and the banker trades on credit, and in the Bank Act, clause 2, it is said, “And the whole amount of Bank of England notes then in circulation, including those delivered to the banking department of the Bank of England, shall be deemed to be issued *on the credit* of such securities, coin, and bullion so appropriated, and set apart to the said issue department;” these notes circulate on credit. So far are these bank notes from being money, that they avow a debt to be due, an engagement to pay money; they are not a legal tender, everywhere, for the payment of debt, but an engagement to pay sovereigns, the only legal tender, and the only standard of value, and the only money, with the gold half-sovereigns, and the silver coins, to the amount of forty shillings, in the United Kingdom; and have been the only money,

as stated in the preamble to the "Sydney Branch Mint Act," for the last forty-eight years, since 1816; since the repeal of "that fatal measure," so-called by Sir Robert Peel, for restricting cash payments by the Bank of England; or more properly, perhaps, since 1823. (See pp. 466 and 472, *antè*.)

The Bullion Committee, in 1810, during the existence of the Bank restriction, made their report, of which the following is an extract:—

"That there is at present an excess in the paper circulation, of which the most unequivocal symptom is the high price of bullion, and next to that the low state of the Continental exchanges; that this excess is to be ascribed to the want of a sufficient control in the issues of the Bank of England, and originally to the suspension of cash payments, which removed the natural and true control.

"According to the judgment of your Committee, no sufficient remedy for the present, or security for the future, can be pointed out, except the repeal of the law which suspends the cash payments of the Bank of England."—*Harris's History of the Bank of England*, vol. i. p. 286.

This Report was made during the suspension of "cash payments." We have restored this "natural and true control in the issues of the Bank of England;" we have repealed the law which suspended "cash payments;" yet very nearly the same arguments are used by the supporters of the Bank Act—that Act imposes a limit upon the issues of the Bank of England, and other bankers, in order to prevent *excessive issues*; Sir R. Peel, p. 143, *antè*, "under a system of unlimited competition; although it be controlled by convertibility into coin, there is not an adequate security against the *excessive issue of promissory notes*," p. 144. "If we admit the principle of a metallic standard, and admit that the paper currency ought to be regulated by immediate reference to the foreign exchanges,—that there ought to be early contractions of paper on the efflux of gold," p. 163, *antè*.—"We think it of great importance to increase the controlling power of a single bank of

issue. We think it the wisest course to select the Bank of England as that controlling and central body."

The same complaint and fear of over issues, the same reference to the *foreign exchanges*, the same necessity of *control*, are arguments urged now as during the suspension of cash payments.

Whence can arise this seeming incongruity? The Bullion Committee did not propose the appropriate and complete remedy.

The Committee made no provision against the payment of Bank of England notes in bullion; they overlooked this great error of our monetary system, which mode of payment prevailed before and after the suspension of cash payments, and still exists.

CHAP. VII.

ON THE BILL OF SIR R. PEEL—HIS BILL DIFFERS FROM THE ACT—HIS OPINION OF THE SYSTEM THEN EXISTING—LIMITATION OF ISSUE TO SUPPLY THE PLACE OF COMPETITION—ON THE BULLION BEING WAREHOUSED AS BONDED GOODS FOR EXPORTATION—ON THE BANK RESERVE—ON BANK NOTES AND COINS AND BULLION—ON THE BULLION, ETC.

IN sec. 63, p. 429, *antè*, Lord Overstone is reported to have declared, "The Act is, as far as I know, the Act of Sir Robert Peel, and the immortal gratitude of this country is due to him for the service rendered to it by the passing of that Act."

It is worthy of remark, that the Bill introduced and propounded by Sir Robert Peel differs essentially from the Act which was passed by the legislature.

Sir Robert Peel, p. 57; see p. 164, *antè*: "Take the case at present; the Bank is possessed of a great amount of bullion, not less than 16,000,000*l.* The banking department of the Bank of England will be possessed of not less than 30,000,000*l.* of bank notes—14,000,000*l.* issued on securities and 16,000,000*l.* on bullion; a great proportion of these bank notes will necessarily lie dormant in the coffers of the banking department, because it is not probable that more than 22,000,000*l.* can be made available for the supply of the legitimate demands of commerce." According to this statement, notes were to be given to the banking department for *all* the bullion taken from the Bank of England, and for fourteen millions issued on securities.

It was the intention of Sir Robert Peel, p. 79, to supply the void occasioned by the failure, or the withdrawal of notes by the country banks, from the supply of notes *lying dormant*, which he supposed might be 6,000,000*l.*

Sir Robert Peel does not advert to the notes then in the circulation as a portion of the notes issued; he reasons as though the notes were to be issued *de novo*, upon fourteen millions of securities, and the remainder upon bullion, upon a different security than before the passing of the Bank Act.

If the banking department had notes for all the bullion in the bank transferred to the issue department, and for fourteen millions on securities, all the bullion in the issue department might be exhausted by means of the notes in the banking department, which would militate against the following position:

3980.—The Act of 1844 “has secured such an amount of paper money in this country as shall render it impossible for the bullion reserve to be drained out of the country.”

P. 442, *antè*, 3901.—“We always said that whenever the accounts were put into a correct and intelligible and honest form, we should then have some knowledge of the bank reserve, and that that bank reserve was a very important part of the question.”

What is the bank reserve? Is it a reserve of receipts of bullion for exportation, or of notes payable in coins for the domestic circulation? The notes are made to answer both purposes.

Sir Robert Peel relied upon the power of reducing the amount of notes, if required, to 11,000,000*l.* (p. 164, *antè*). He makes no allusion to raising the interest of money in order to protect the bullion.

P. 170, *antè*.—Sir Robert Peel, p. 77: “The Act of 1819 restored a metallic standard; it required that promissory notes should not be issued excepting on the condition that they were convertible into gold at

the will of the bearer. They are issued on that condition. Under the system that exists, they may not for a time conform in value to gold—they may be issued in excess—they may be the means of affording a greater degree of temporary accommodation than could be afforded by a metallic currency—they may increase prices, and create for a time the appearance of prosperity," &c. "If you adhere to a metallic standard—that standard will assert its supremacy," &c.

Since the repeal of the Bank Restriction Act, we have always had a metallic standard, and the object of adopting a circulation of bank notes, and the merit of that adoption, is to enable those who issue bank notes to afford loans of money beyond what they would otherwise do. But the banker promises to pay his notes in money, not in gold—not in uncoined gold—not in bullion. It is not the metallic standard which should assert its supremacy in the payment of bank notes, but truth in the performance of the promise agreeably with the tenor of the contract expressed in the note.

I have said (p. 146, *antè*) — "The rivalry now is between the demand for the "great mercantile republic" and the great national bank." The international traders want the gold for exportation; the National Bank, agreeably to the tenor of the note, have only occasion for money, for coins—the money they promise to pay. The foreign merchants want only the most convenient commodity, and seek not the national money; if they receive bullion or coins for exportation, they must first be sold for the money of the country where the debt is due, in the same manner as any other commodity, and other commodities would supply and do supply their place, but not so conveniently. By the present Bank Act, and by the practice of the bank, the payment in *money at home* is confounded with the payment by means of merchandise abroad. I am

aware that in the United States it is enacted, that the gold coins of Great Britain are "receivable in all payments:" but they must be of a certain weight and fineness; they are receivable in all payments "*by weight*"—their value is not known on *inspection*.

Sir Robert Peel would substitute limitation of issue by law in the place of competition of issue imposed by the rivalry and self-interest of separate banks. As I have observed (p. 198, *antè*)—"And all acting upon the same principle, the circulation is reduced to the lowest amount that is consistent with the wants of the community."

If we separate the domestic circulation of coins and paper money from the exchanges, from the efflux and influx of bullion, by establishing a deposit bank, or rather warehouse for bullion, each depositor being the owner of his own bullion, with the power of transfer by the owner, on the principle of bonded goods—as tobacco bonded for exportation or home consumption, the tobacco being exported in its crude state, or taken for home consumption by the manufacturer, the bullion, being also taken uncoined for exportation, or taken for coinage for domestic circulation, at a certain rate, say *3*l.* 17*s.* 9*d.** per oz.—all confusion vanishes; and the exaction of exorbitant interest being forbidden by law, and, taking truth and justice for our guide and principle, all injustice, under the name of "pressure," would likewise cease.

CHAP. VIII.

FIRST STATEMENTS OF THE BANK OF ENGLAND—BLACKSTONE ON
PROMISSORY NOTES—A MORE SIMPLE STATEMENT SUGGESTED—
ON THE SECURITY OF THE BANK OF ENGLAND NOTE—ON THE
SECURITY BEING REALISED—ON THE EFFECT OF LIMITATION—
ON OBTAINING BULLION BY CHEQUES.

P. 1.—THE following is the first statement of the
Bank of England, after the passing of the Bank
Act:—7th day of Sept. 1844:—

Issue Department.

Notes issued . . .	£28,351,295	Government debt . .	£11,015,100
		Other securities . .	2,984,900
			14,000,000
		Gold coin and bullion	12,657,208
		Silver bullion . .	1,694,087
	<u>28,351,295</u>		<u>28,351,295</u>

Banking Department.

DR.			CR.
Proprietors' Capital	£14,553,000	Public Securities,	
Rest	3,564,729	including Dead	
Public Deposits (in-		Weights Annuity	£14,554,834
cluding Exchequer,		Other Securities . .	7,835,616
Savings Banks, Com-		Notes	8,175,025
missioners of National		Gold and Silver Coin	857,765
Debt and Dividend			
Accounts)	3,630,809		
Other Deposits . .	8,644,348		
Seven-day and other			
Bills	1,030,354		
	<u>31,423,240</u>		<u>31,423,240</u>

By the 2nd clause of the Bank Act it was enacted (p. 383, *antè*), "That upon the 31st day of August, 1844, there shall be transferred, appropriated, and set apart by the said Governor and Company to the issue department of the Bank of England securities to the value of fourteen million pounds, whereof the debt due by the public to the said Governor and Company shall be and be deemed a part; and

there shall also at the same time be transferred, appropriated, and set apart by the said Governor and Company to the said issue department, so much of the gold coin and gold and silver bullion then held by the Bank of England as shall not be required by the banking department thereof; and thereupon there shall be delivered out of the said issue department into the said banking department of the Bank of England, such an amount of Bank of England notes as, together with the Bank of England notes then in circulation, shall be equal to the aggregate amount of the securities, coin, and bullion so transferred to the said issue department of the Bank of England; and the whole amount of Bank of England notes then in circulation, including those delivered to the banking department of the Bank of England as aforesaid, shall be deemed to be issued on the credit of such securities, coin, and bullion so appropriated and set apart to the said issue department.

Blackstone's Commentaries, B. 2, c. 30:—

“But there is one species of debts, upon simple contract, which, being a transaction now introduced into all sorts of civil life, under the name of *paper credit*, deserves a more particular regard. These are debts by *Bills of Exchange* and *Promissory Notes*.”

“Promissory notes, or notes of hand, are a plain and direct engagement in writing to pay a sum specified at the time therein limited to a person therein named; or sometimes to his order, or often to the bearer at large.”

Is it a fact that, agreeably to the second clause of the Bank Act, the issue of Bank of England notes rests upon fourteen millions of securities, and the remainder upon coin and bullion, agreeably to the theory of the present system?

The last quarterly return published 16th August, before the Bank Act came into operation, states:—

Circulation	. . .	£ 21,324,000	Securities	. . .	22,908,000
Deposits	. . .	14,090,000	Bullion	. . .	15,579,000
		<u>35,414,000</u>			<u>38,487,000</u>

J. B., Downing Street.

The notes, 21,324,000*l.*, were not issued upon 14,000,000*l.* of securities, and the remainder upon bullion. These notes in circulation rested upon such

securities, bills of exchange, bullion, and other assets as the Bank Directors approved of.

The notes in circulation at the time of passing the Bank Act, were to be included in the amount of Bank of England notes permitted to be issued; these notes amounted to 20,176,270*l.*; these notes continued to circulate on the same description of securities, before and after the passing of the Bank Act; and it is illusory to suppose that they are issued or circulated on different securities. The Government debt is a guarantee fund now, as it was when Adam Smith wrote (B. 2, c. 2, p. 124, *antè*)—"The stability of the Bank of England is equal to that of the British Government. All that it has advanced to the public must be lost before its creditors can sustain any loss."

The amount of notes in circulation is not given in the weekly statements, and must be found by deducting the notes in the banking department from the notes permitted to be issued; as these two items, 8,175,025*l.* and 20,176,270*l.*, comprise the amount of notes permitted to be issued, 28,351,295.

A simple statement of the amount of notes issued	£ 28,351,295
from which deducting the notes in circulation	20,176,270
would show the amount of the reserve	<u>8,175,025</u>

to which so much importance is attached, 3895, "which everybody knows and everybody watches."

The notes in the hands of the public forming the circulation were	£ 20,176,270
And the bullion and coin in the Bank of England transferred to the issue department were	<u>14,351,295</u>
Together	34,527,565
And the notes allowed to be issued were	<u>28,351,295</u>
	<u>6,176,270</u>

Here is a difference of 6,176,270*l.*, being so much bullion transferred by the Bank of England to the issue department, and for which no notes were given to the banking department.

The issue department took all the bullion and gave notes to the banking department for so much of the bullion only as, with fourteen millions issued on securities, should equal the amount of notes permitted to be issued by the issue department.

This amount of bullion, 6,176,270*l.*, remains in the issue department, and for which no notes have been given; and the only means of procuring notes to withdraw this bullion is by taking them from the circulation; but it is presumed that the withdrawal of notes from the circulation to procure all this bullion would so distress commerce, that the notes will never be all presented for payment in bullion; it would reduce the circulation to 14,000,000*l.*, and therefore, it is said, no provision of bullion is made for 14,000,000*l.* of notes; and the bullion will not be exhausted.

It is said in clause 2:—"That the whole amount of Bank of England notes then in circulation, including those delivered to the banking department of the Bank of England as aforesaid, shall be deemed to be issued on the credit of such securities, coin, and bullion so appropriated and set apart to the said issue department."

Were the notes in circulation before the passing of the Bank Act issued on the credit of such securities, coin, and bullion?—Certainly not. They were issued or paid in discounting bills, &c., or in payment of bullion and other assets: the *circulation* rested on the same credit before and after the passing of the Bank Act, on the credit of the bills the Bank discounted, &c., with the security, also, or guarantee of the Government debt and the proprietors' capital.

The Bank of England still issue their notes in payment of bills offered for discount, and other satisfactory securities. Why should they be *deemed* to be issued in a different sense from what they are issued? and why is the circulation, the notes with the

public, which is the only portion of the *notes* which forms a debt of the Bank, omitted?

With due deference I make these remarks, and I would also observe that the Government debt and the bullion are only a *security* now, as before the Bank Act, and I cannot comprehend the force of the following reasoning.

J. G. Hubbard, Esq., June 26, 1857:—

2633.—“I beg to observe that there is an immense difference between a security which is realised and a security which is merely dreamt of. Before the Act of 1844, the security was one resting only upon opinion—resting upon caprice and arbitrary action, and uncontrolled by any legal limit—and you cannot have security without limitation.”

2634.—“Was not it equally the case before the Act of 1844, as it has been since,—that the security for the payment of the notes was the bullion which the Bank held to meet them?”—

“Bullion was the material in which the promise was to be fulfilled, but bullion never was provided for the payment of all the bank notes.”

“You have now an amount of bullion which is equally incapable of meeting all those notes, but which is more than capable of meeting all the notes which, under any event short of a popular revolution, could possibly be presented.”

“Before the Act of 1844, you might have issued an indefinite amount of credit paper; and if you had issued an indefinite amount of credit paper, you could not possibly have redeemed those notes in bullion when a crisis came; that would have endangered their convertibility.”

2635.—“The whole, therefore, amounts to having a proper reserve of bullion to meet the liabilities of the Bank?—No; it is impossible to say that any given amount of bullion would meet all the notes; it must be done by a limitation of the amount of credit paper.”

What is meant by a security realised?—A security for the payment of a debt may be sold, and with the money a debt may be paid; a security is only a guarantee for the payment; limitation of issue, “when a crisis comes,” does not ensure the convertibility of the note, that is, the payment of the note

in *bullion* by the *Bank of England*. By limitation the prices of goods, the property of others, are lowered, and these goods are exported instead of bullion; but this is neither payment nor convertibility in bullion of the note by the *Bank of England*.

Two things are to be proved, that the Bank of England note is payable in *bullion*, and that appropriation of the property of others by pressure, to obtain the bullion or to retain the bullion, is justifiable.

No additional notes can be issued by the issue department without a corresponding amount of bullion being there deposited; therefore the excess of bullion beyond the notes continues the same.

The bullion taken to the issue department for notes does not affect the amount of notes relatively to the bullion there; but the amount of notes in *the circulation* affects the amount of notes available for presentation to obtain bullion through the banking department.

There will always be in the issue department an amount of bullion which cannot be claimed, equal to the excess of notes in circulation compared to the amount of notes issued on securities.

In times of commercial embarrassment, when the notes in circulation or hoarded are the greatest, the bullion in the issue department will be comparatively the greatest, as happened in 1847, 1856, 1857, when about eight millions of bullion were locked up in the coffers of the issue department.

If the amount of bullion in the issue department were equal to all the notes issued, the result would be that there would be gold lying idle in the issue department equal to all the notes in the circulation and in the banking department; but the effect would be, not that there would be more bullion available for the foreign trade, but that there would be locked up in the coffers of the issue department fourteen millions of bullion, in addition to the eight millions in 1847 and 1857; there would

be twenty-two millions of bullion; and, on the contrary, if sixteen millions or eighteen millions of notes were issued on securities, there would be six millions or four millions of bullion, instead of eight millions, lying idle in the issue department; the bullion could not be drained from that department. The securities and the bullion *locked up* in that department are equally unavailable for exportation, neither is the bullion available for the home circulation of coins.

Sir Robert Peel, p. 22, p. 142, *antè*:—"I will not weary the House with a discussion as to the precise nature of deposits, and whether they constitute a part of the currency of the country."

The bullion in the Bank of England previously to the Bank Act, including the 6,176,270*l.* in the issue department, was a deposit, for which the depositors had received either bank notes or a credit, and the depositors might have obtained this bullion either by cheques or Bank of England notes: the *claim* of the depositors and the liability of the Bank remained the same, before and after the passing of the Bank Act, but the means of obtaining the bullion were changed; the depositors could no longer demand the bullion with cheques; they could only obtain it with Bank of England notes, and the Bank notes issued were limited to that amount, that notes could not be spared from the circulation to demand it—as Lord Overstone states (pp. 341, 342, *antè*):—

3980.—"The Act of 1844 has secured such an amount of paper money in this country as shall render it impossible for the bullion reserve to be drained out of the country." And 4027:—"There is such a quantity of bullion held in reserve that the country will never bear a reduction of its notes to so low an amount as to exhaust its bullion."

The six or seven millions of bullion, for which no notes were given to the banking department, remain in the issue department for want of notes to obtain it, as they cannot be spared from the circulation; and

this bullion cannot be demanded by cheques, as before the passing of the Bank Act. It is not the limitation of the amount of bank notes only, but the limitation of payment by *bank notes alone*, which prevent the bullion being exhausted. I am not aware that there is any obligation on the issue department to deliver bullion in payment of Bank of England notes presented by the banking department. Sir Robert Peel (p. 62) speaks of incurring "no risk of infringing upon that principle, which will impose a positive obligation upon the Bank to receive gold in exchange for notes, and to pay notes in gold *coin* on demand."

And the 2nd clause of the Bank Act enacts (p. 383, *antè*):—

"From and after such transfer and appropriation to the said issue department as aforesaid, it shall not be lawful for the said Governor and Company to issue Bank of England notes, either into the banking department of the Bank of England, or to any persons or person whatsoever, save in exchange for other Bank of England notes, or for gold coin, or for gold or silver bullion received or purchased for the said issue department, under the provisions of this Act; or in exchange for securities acquired or taken in the said issue department under the provisions herein contained."

The issue department must give Bank of England notes for bullion, but I do not find in the Act that that department is obliged to give *bullion* for notes.

CHAP. IX.

ERROR OF THE AUTHOR—SIR R. PEEL ON THE POUND—THE BANK OF ENGLAND CANNOT PURCHASE BULLION ABROAD—EXTRACTS FROM THE REPORT OF THE COMMITTEE—ADAM SMITH ON A PRETENDED PAYMENT OF NATIONAL DEBTS—MR. WEGUELIN ON PRESSURE—REMARKS ON THE NEW MONETARY SCIENCE—MR. HUBBARD ON THE RESERVE—MR. RODWELL ON THE RESERVE—REMARKS ON COMMERCE BEING GOVERNED BY THE RESERVE.

IN the first part of this treatise I considered the subject of the currency, under the erroneous impression, that it was obligatory on the Bank of England to pay bullion for their notes, when demanded; and by the establishment of a bonded warehouse for bullion as for other goods, such as is described p. 110, *antè*, I purposed to supersede that demand by making each owner of bullion the storekeeper of it, as of any other commodity in bond.

Sir Robert Peel, by a wrong definition of the "pound," included in that definition bullion or uncoined gold, which is not money, but merchandise; it would apply to ingots of gold which vary in value according to their weight and fineness, and which are valued by the "sovereign," the only money, and cannot themselves be money; it would be valuing money by itself, which is impossible. In pursuance of Mr. Ricardo's plan, we are informed by Mr. Haggard, p. 34: "There were stamped at the Mint 2028 ingots, which the Act states should be 60 oz. bars, but not one of the number was precisely that weight." At the conclusion of the first part of this treatise I observed: "I submit, that the Bank of England should have nothing to do with the exportation and import-

ation, or with the trade, of bullion. It is a commodity which should be viewed, with regard to the foreign trade, in the same light as tobacco or sugar," and which, I now add, the Bank of England is under no greater obligation to deliver in payment of their notes than they are obliged to pay their notes with tea, tobacco, or any other merchandise, and which the state should absolutely prohibit, as the bullion, when not in the home market, cannot be purchased abroad by the Bank of England, who have no commodities and where their notes are not current.

The Bank should be superseded by the warehouse; the warehouse for *bullion*, and the Bank for *money*, notwithstanding the consent of the borrower and banker to pay and receive bullion in payment of the note, on the principle alluded to (p. 473, *antè*), of the obligation of building party walls; because it involves the insecurity of property, and "ought to be restrained by the laws of all governments, of the most free as well as of the most despotical."

The committee of 1857 entertain no doubt of the propriety and necessity of securing by *the Bank of England* an adequate supply of bullion, as will be seen by the following extracts from their report:—

"Section 60.—That the public welfare, in times of commercial disaster, requires the maintenance of an adequate supply of bullion at the Bank, is the opinion of Mr. Tooke, Mr. Newmarch, and Mr. Mill, as well as of Lord Overstone, Mr. Norman, and Mr. Hubbard. That the supply necessarily maintained in the coffers of that establishment, under the provisions of the Act of 1844, is greater than that which was ever maintained under circumstances of pressure in former times, is a fact beyond dispute.

"That the opinion of the present Bank directors is strongly in favour of maintaining the Act of 1844, appears in the evidence.

"They attribute the maintenance of that amount of bullion to the regulations provided by the Act.

"If they had been induced to issue more than the proportion which the law allowed, more gold would have gone

out by the action of the foreign exchanges, and the consequences would have been that they would have been left with less gold as the panic came on: and then, even with the permission to issue more notes, they would not have felt warranted in hazarding the circulation by doing so.

“They therefore recommend that no relaxation should be made in the provisions of that law.”

“Section 61.—In this opinion the Governor of the Bank of Ireland, the representatives both of the chartered and unchartered Banks of Scotland, the Chairman of the Association of Private Bankers, and Mr. Alderman Salomons of the London and Westminster Bank, concur.”

“Section 66.—The main object of the legislation in question was undoubtedly to secure the variation of the paper currency of the kingdom, according to the same laws by which a metallic circulation would vary. No one contends that this object has not been obtained.”

“Section 67.—It may be laid down that in the opinion of every practical witness, who is an advocate for the convertibility of note, the amount of bullion retained in the coffers of the Bank, under the operation of the existing law, is not greater than a due regard to prudence would require, even if the law were altered.”

“Section 73.—They would, however, here take occasion to observe, that if new provisions shall at any future time be made by Parliament, the great object of securing the maintenance, at the time of severest pressure, of an adequate supply of bullion, should be guarded with the utmost caution.”

“Section 74.—In considering these new provisions, your committee assume that no hazard will be incurred with regard to the foreign exchanges, but that the efficient action of the law in that respect will be duly maintained.”

“Section 81.—It appears to your committee that no mischief will result from at least a temporary continuance of the present state of things under which the Bank of England holds the powers given by the Act of 1844, subject to a notice of twelve months, which may at any time be given by the House of Commons through Mr. Speaker.”

“Section 82.—Your committee have stated the reasons by which it is established, to their satisfaction, that the recent commercial crisis in this country, as well as in America and the north of Europe, was mainly owing to excessive speculation and abuse of credit; and also, that in the time of

pressure the houses which deserved assistance received it from the Bank of England in a manner in which that establishment would not have been able to give it, except for the bullion retained in their coffers: and your committee are satisfied to leave in the discretion of the Executive Government the time and prudent opportunity of giving further effect to those principles by which the convertibility of the Bank of England note has been kept above suspicion."

Adam Smith, B. 5, c. 3:—

"When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and completely paid. The liberation of the public revenue, if it has ever been brought about at all, has always been brought about by a bankruptcy; sometimes by an avowed one, but always by a real one, though frequently by a pretended payment.

"The adulteration of the standard has exactly the same effect with what the French call an augmentation, or a direct raising of the denomination of the coin.

"An augmentation, or a direct raising of the denomination of the coin, always is, and from its nature must be, an open and avowed operation. By means of it, pieces of a smaller weight and bulk are called by the same name, which had before been given to pieces of a greater weight and bulk. The adulteration of the standard, on the contrary, has generally been a concealed operation. By means of it pieces were issued from the Mint, of the same denominations, and, as nearly as could be contrived, of the same weight, bulk, and appearance, with pieces which had been current before of much greater value. When King John of France, in order to pay his debts, adulterated his coin, all the officers of his Mint were sworn to secrecy. Both operations are unjust. But a simple augmentation is an injustice of open violence, whereas an adulteration is an injustice of treacherous fraud. This latter operation, therefore, as soon as it has been discovered—and it never could be concealed very long—has always excited much greater indignation than the former. The coin, after any considerable augmentation, has very seldom been brought back to its former weight; but after the greatest adulterations it has almost always been brought back to its former fineness. It has scarce ever

happened that the fury and indignation of the people could otherwise be appeased."

T. M. Weguelin, Esq., 19th May, 1857:—

"558.—Then the benefit of securing the convertibility of your currency is a general one, but the means of doing it by the mode in which the Bank acts, bears upon a particular section of the trade of this country?—It bears upon that section of the trade that most uses credit, and I know of no other section that it can fall upon. It falls first of all upon those who use credit for longer periods, and ultimately it must fall upon all those who use credit at all."

"559.—Can you specify what class of bills, chiefly, are the long bills in this country?—Principally East India and China bills."

"560.—In the corn trade, are the bills generally of long date?—I think corn bills are generally drawn at three months."

The bullion is the key of the box for obtaining bank notes from the issue department, as bank notes are the key of the box for obtaining bullion, through the medium of the banking department; those who want bullion for exportation take bank notes to the banking department, who carry them to the issue department, who give bullion for the amount, and cancel the notes: in this way a demand for bullion at the banking department lessens the notes of the reserve to the amount of the bullion delivered, and the amount of the reserve is also liable to be lessened by a demand for coin, in consequence of an extension of trade requiring more notes in the circulation. The bullion taken from the issue department does not distress the banking department until it reaches a certain point; and the new science consists in watching and guarding against too great an export of bullion, which may affect the reserve. It therefore becomes of the utmost importance that every one should watch the reserve, and foresee the effects and calculate the probabilities, of its being lessened or increased: such as the state of the finances of foreign governments; whether they may require loans; the

spirit of the commercial and trading community; whether the prices of sugar, tea, coffee, rum, and corn, are higher than is consistent with the safety of the reserve; whether any nation is likely to want more gold or silver than usual; whether the peace of Europe is likely to be maintained; whether the growing crops promise an abundant or a deficient harvest; how the weather is likely to be, and what winds are likely to prevail affecting the arrival of the gold ships; whether the mines in California, Australia, and Columbia, are likely to be productive, &c. All these premonitory symptoms, indicating a probable increase or decrease of the reserve, should be carefully watched by the bankers, merchants, manufacturers, mechanics, workmen, and agricultural labourers, and should not be disregarded by those interested in railway traffic. "*Risum teneatis, amici?*"

The present system regulates or nullifies the demand for *bullion* at the pleasure of the directors, and which is not a real payment of bullion on their part, but a real payment in goods and securities lowered in price, the property of another party; and this proceeding is supposed to be justified by a statement of accounts, weekly published, showing the amount of notes at the service of the banking department for conducting their business, either in the trade of discounting with notes for the domestic or national circulation, or of procuring, with notes, bullion for the foreign trade (p. 340, *antè*): "3895, which everybody knows and everybody watches," under the name of the reserve, or unemployed notes in the banking department.

June 26, 1857.—Mr. Hubbard (2849) does not think the "bank reserve, taken as the test (the quicksilver, as it were, in the financial barometer)," can alone be depended upon: he has observed "at certain times, each rise of one million in the bullion had been accompanied by a fall of one-half per cent. in the loanable value of money on bills;" but the quantity of bullion is subject to many "disturbing influences"

“which disqualify the reserve for the office of solitary test.” For the public generally, the variations in the bullion from week to week supply reliable and sufficient information as to the varying amount and value of money.

Mr. Rodwell says (Report, section 67), “the country bankers now look to the unemployed notes (in the Bank of England) as an infallible index of what it is necessary for the Bank of England to do, and for the country bankers to do also.”

The trade of the country is to be extended or contracted by raising or lowering the rate of interest as this reserve may increase or diminish; thus the commerce of Great Britain is to be subservient to the medium of the exchange of commodities, instead of the medium of exchange being governed in amount by the quantity of goods; and the country by “watching” the reserve is described as a party to the proceeding; but lest the country may not be sufficiently aware of its duty, may trade more than suits the reserve of the bank, or raise the prices of commodities too high for the markets abroad, the merchants and bankers are to be made aware of their imprudence, by the banking department raising the rate of discount, giving a shock to credit, and thereby lowering the prices of commodities and securities, and to any extent that the due maintenance of the reserve may require, in order to substitute these commodities and securities for exportation instead of bullion; instead of self-reliance and self-government, they are to be guided in their commercial and banking transactions by the wants and by the prudence and firmness of the banking department; and not only the merchant, the tradesman, and the dealer in foreign securities, and the owners of property, are to “know” and “watch” the reserve, but all “those who use credit at all.”

CHAP. X.

ON THE RESERVE BEING EXPRESSED IN NOTES AND NOT IN BULLION—ON THE BANK OF ENGLAND BEING IN A FALSE POSITION—ON THE FIXED VALUE OF MONEY, AND ON THE PROMISE—ON THE MEASURE OF VALUE—ON SIR ROBERT PEELE'S DEFINITION OF THE POUND—ON THE SEPARATION OF ACCOUNTS, AND LIMITATION OF ISSUE—ON THE SYSTEM BEFORE AND AFTER THE BANK ACT.

T. M. Weguelin, Esq., May 22nd, 1857.

"884. Your notes in the Banking Department may be diminished in two ways, either by an increase in the circulation of the Bank, or by a withdrawal of bullion from the Issue Department?—Yes."

"885. Do not you think, that if in your published account the real reserve was expressed in bullion, and not in notes, so as to show the reduction taking place from week to week in the amount of the bullion, and not apparently in the amount of the notes, that would be a more truthful expression of the fact to the public mind, and more likely to inform them correctly of the state of the case?—I think it would point out at once the cause of the scarcity of money; that it was by the abstraction of bullion from the Bank."

"887. To me it appears the clearest statement that can be made"—especially from having been "accustomed so many years to look at this account in this particular form."

Referring to Lord Overstone's evidence pp. 442, 501, *antè*, 3901, it appears that his Lordship considers the great merit of the present statements to be that they convey, "some knowledge of the Bank Reserve."

A statement of accounts should be intelligible at a glance, and require no explanation; in my opinion the present elaborate statements are most complicated, and the reserve might be shown by the short statement, p. 506, *antè*.

885. It is admitted in the preceding extract that “the abstraction of bullion from the Bank is the cause of the scarcity of money.”

It would appear that the Bank of England was placed in a false position; the Bank had received value for the notes in circulation 20,176,270*l.*; and they also held bullion at the same time amounting to 14,351,295*l.*—together 34,527,565*l.* The Bank must have given notes or Bank credits for the whole of this amount—but the Bank was allowed by the Bank Act to issue notes only for 28,351,295*l.*;—before the passing of the Act the bullion might have been demanded by cheques without the intervention of notes, after the passing of the Act the bullion could be demanded only by notes—what was to be done with the bullion for which no notes were permitted to be issued, amounting to the difference between 28,351,295*l.* and 34,527,565*l.*, or 6,176,270*l.*—the state or the government determined that this should be placed in the Issue Department, to the credit of that Department—who could claim this bullion for which no notes were permitted to be issued?—the Bank of England had given *bank credits* for this sum, and no person could claim it, as the notes were not available to demand it—and it remains in the Issue Department, and it is possible that the elaborate statements of the Bank of England are made to allow the lawful claimants to demand it, in the case of the winding up of the Bank concern, for there can be no doubt that among the debits of the Bank are placed these claims, and in the statement submitted to Mr. Weguelin (849), all the bullion is on the credit side of the Bank of England, with a corresponding amount of debits.

Sir Robert Peel, on introducing the Bank Bill in the House of Commons, observed, p. 3:—

“I shall, therefore, proceed at once to call the attention of this Committee to a matter which enters into every transaction of which money forms a part. There is no contract,

public or private—no engagement national or individual—which is unaffected by it.”—p. 137, *anté*.

Now money forms that part of a contract which, under all circumstances of variation in the terms of a contract, remains the same: it is the measure of value, and cannot itself undergo a change: under all circumstances it is the same, in each independent country: however the value of the goods contracted for may vary, the money, the measure of that value, does not vary—in this country the only money, the only measure of value, is the gold coin, the sovereign, the only legal tender in the payment of debt to an unlimited amount.

Whatever may be the condition of any country, however disturbed in its foreign relations, or domestic or national tranquillity, the measure of value, the money of the realm, the gold and silver money when free from adulteration, retains its *nominal value*, unless produced by less labour, and sanctioned by the same Royal authority and laws which determined its value in the exchange of commodities.

This intrinsic worth, the value of the gold coin, is independent of all other acts of Government, of all systems of banking, all overtrading; is independent of exports and imports, of the balance of trade, of the exchanges, of all external conditions; and we may depend upon it, that any system which militates against this intrinsic, self-supporting quality, is unsound—and in the same manner, the contract rests upon the obligation and promise expressed in the contract: whatever the contract may be, if it be lawful, good faith requires its performance. The promise to pay a certain sum of money can be discharged only by the payment, and that obligation rests upon truth. The value of the *money*, of the gold and silver money, its unchangeable value, is determined by its intrinsic worth, and *lawful authority*; the value of the *promise* rests upon truth in its performance.

Sir Robert Peel, p. 7 :—

“I hope I shall be excused if I advert at the outset to the great principles which govern or ought to govern the measure of value, and the medium of exchange. They lie in truth at the very foundation of our discussion;”

and he proceeds, at the conclusion of the paragraph,

“Now I fear there is not a general agreement on those fundamental principles—that there is still a very material difference of opinion as to the real nature and character of the measure of value in this country.”

When we consider that the measure of value in Great Britain had been clearly expounded, and declared by an Act of the Legislature in the years 1816 and 1819, that that measure of value was the gold “sovereign,” and the gold sovereign only, known in common language as the “pound,” understood by every one who deals in money, from the rich banker, who trades with money, to the daily labourer, who receives his wages in this coin, this pound, or sovereign, or its fractions in the form of shillings and pence, it would appear quite useless that any time should be spent in eliciting a fact or truth so explicitly declared by the Legislature; but when we arrive at Sir Robert Peel’s explanation, then indeed, as he gave an entirely erroneous meaning to the “pound,” it is no wonder that he should perplex himself and his hearers: his followers have adopted the same conclusions from the same erroneous premises, adapting the meaning of words to the new theory of monetary science; making a mystery of the promise to pay a debt, in the acknowledged money of the Realm (p. 508, *antè*)—changing payment to a security for payment—blending the payment of debt in the national circulation, with the exchanges which embrace only foreign payment, and substituting for the real debtors, the Governor and Company of the Bank of England,—“the trade of the country” by

one advocate, p. 253, *antè*, and the "country" by another, p. 243, *antè*.

Lord Overstone, 7th July, 1857—p. 440, *antè*.

"It may be sufficient now to observe, that these provisions, the separation of the accounts, and the positive restriction of the amounts of paper issues, constitute the only real and effectual distinction between the monetary difficulties and dangers which attended every period of drain previous to 1844, and the striking contrast which the subsequent period presents."

In consequence of the limitation of the amount of paper issues, the notes required in the domestic or national exchange of commodities engross so much of this circulating medium, that notes cannot be spared to demand all the bullion in the Issue Department, and the bullion therefore in that department cannot be exhausted; but still the deficiency of bullion, when required to pay the foreign debt, must be supplied from some source: the prices of goods for exportation are therefore lowered by a stringency on credit, and these goods, the property of others, are exported to purchase bullion or to supply the place of bullion, which would be the most convenient commodity to pay debt abroad; is it not inconsistent with integrity and good faith to do this?—And when we compare the periods before and after the passing of the Bank Act, we must not forget that in 1847, p. 273, *antè*, Mr. George Norman stated that (2702) "every one seemed afraid of his neighbour;" and in the opinion of Mr. Tooke, "the time was approaching when nobody would pay anybody;" another witness, Mr. Lister, states "there was a panic through the country; people thought they were in an iron cage and could not get out of it; that iron cage was the Act of 1844"—and Lord Overstone (3833) states that in 1857, "The whole machinery of the credit system of the country had been brought to a dead lock:" surely here is no ground for boasting: but before and after the passing of the Bank Act, the Bank undertook to

pay its notes with bullion, the great fallacy of the system.

"On the other hand," say the Lords' Committee of 1848, "it is right to observe that some witnesses represent the pressure in 1847 to have been less severe than at several former periods."

Those who think, with Sir Robert Peel, that the only choice is between the system which prevailed before the passing of the Bank Act, and the system which has prevailed since, may draw conclusions from a comparison of the evils which have prevailed before and since the passing of that Act:—but this comparison affords no argument with those who reject both systems; who reject as fallacies the axioms that the Bank of England note is an engagement to pay bullion, that the issue of bank notes should be governed by the state of the exchanges, or the influx or efflux of bullion; and who consider that the only duty of the Bank of England is to pay its notes, its debts, with coin, the lawful money of the Realm.

Speech of Sir Robert Peel, May 10th, 1847:—

"The honourable Gentleman has told us what took place in 1837 and 1838; he said the country was then brought to the verge of ruin. But repeal the Act of 1844, and you will restore the state of the law, as it existed at that period. It gave no security. The Bank had the power of issuing paper without reference to the exchanges; the bullion was reduced to £1,600,000 in gold, and there was every probability of the Bank not being able to fulfil its engagements. Always bear in mind, if you do consent to repeal the Act of 1844, you restore the old order of things, and have not the slightest security against the recurrence of the disorders that took place in 1838 and 1839."—*Hansard*.

CHAP. XI.

THE BANK OF ENGLAND NOTE—ON THE OBLIGATION TO PAY MONEY—THE LORDS' COMMITTEE ON THE DUTY OF THE BANK—REMARKS ON THE MEANS PROPOSED TO SECURE THE PAYMENT OF THE NOTE—ON PAYMENT WITH BULLION—ON THE CONTRACT OF THE BANK—MR. HARRIS ON ADULTERATING THE MEASURE OF VALUE—ON PAYING THE NOTES WITH MERCHANDISE—ON THE DISPOSAL OF THE BULLION IN EXCESS OF NOTES ISSUED—ON THE NATIONAL CIRCULATION AND THE GREAT MERCANTILE REPUBLIC.

NOTHING can be more simple and distinct than the tenor of the Bank of England note, of which this is a copy:—

“I promise to pay the bearer on demand the sum of Ten Pounds.

1863, Jan. 26, London.

Jan. 26, 1863.

For the Governor and Company of the Bank of England,
A. B.”

We may truly say of this promissory note:

That it embraces all the conditions enumerated by Adam Smith, when illustrating, in his “Theory of Moral Sentiments,” the claims of justice, in the payment of debt: “If I owe a man ten pounds, justice requires that I should precisely pay him ten pounds, either at the time agreed upon, or when he demands it: what I ought to perform, how much I ought to perform, when and where I ought to perform it, the whole nature and circumstances of the action prescribed, are all of them precisely fixed and determined.” See p. 122 *antè*.

What is the engagement expressed in the Bank of England note? to pay the bearer when he demands it, the “*sum* of ten pounds”—a definite *sum* of

money; it is an engagement to pay *money*, the money of the realm, to pay ten "sovereigns" or "pounds," declared by the legislature to be the only legal tender in the discharge of debt to an unlimited amount.

It is not a "certain definite *quantity* of *gold*, with a mark upon it to determine its weight and fineness," as defined by Sir Robert Peel, which constitutes money; but the coinage of the gold into "sovereigns" by the mint, agreeably to the contract with the mint, and the Royal Proclamation, determining its value in the exchange of commodities, its rateable value in the currency: the depositors also must be similarly paid in pounds, the same *money*.

Let the legislature confine the obligation of the Bank of England to the payment of their debt in money, in coin, and prohibit the payment of uncoined gold, which is merchandise: let the weights and scales be banished from the Bank, except to ascertain the goodness of the "sovereigns," and let the performance of the promise be determined by the strict rules of "Justice"—with "a reverential and religious regard to those general rules which require them" (p. 122 *antè*).

"The Lords' Committee in their Report, section 13, p. 307, *antè*, when treating of the "Remedial measures recommended by the witnesses," observe, "The Committee feel, in common with every witness examined, the duty and obligation of maintaining at all times the practical convertibility of the bank note."

"The practical questions to be settled at present are, whether this great benefit is attained with certainty; whether it is attained by proper means; and whether the restrictions of the Act of 1844 are not attended with grievous and unnecessary evils of a collateral kind."

"An attempt to enforce by law, under all circumstances, one fixed and inflexible rule for the management of a National Bank of Issue, seems inconsistent with the best written authorities, with the general principles of economical science, as well as with the testimony of many witnesses of practical knowledge and experience. It can hardly fail to be pro-

ductive of most serious evils, more especially when a contraction of issues, indispensable in a state of adverse foreign exchanges, is rendered imperative, as it is by the Act of 1844, under circumstances which may be wholly opposite."

P. 311. *antè*. "The first duty of the Bank of England is, so to conduct its affairs as to secure means for the performance of all its engagements with integrity and good faith. Prudence and discretion, the application of scientific truth, to assist, and at times to correct, the inferences drawn from experience, should be its guiding principles; but no narrow views of the mere pecuniary interests of its proprietors should exclusively control its action.

"To the Bank of England, Parliament has confided great privileges and exclusive powers; for the exercise of these powers the Bank is responsible."

With due respect, I beg to submit the following remarks:—Their Lordships very justly observe that "the first duty of the Bank of England is, so to conduct its affairs as to secure means for the performance of all its engagements with integrity and good faith."

But the Governor and Company promise to pay a *sum of money*, and it rests with them to find the "proper means" of paying it. This is the duty of the Bank of England, and it is their duty to conduct their affairs with "prudence and discretion," to pay their debt, in discharge of their obligation, with "good faith and integrity." No one will deny these *moral* obligations founded on the immutable principles of truth and justice.

When the committee speak of "economical science;" of "the application of scientific truth, to assist, and at times to correct, the inferences drawn from experience," as "its guiding principles;" of "contraction of issue indispensable in an adverse state of the foreign exchanges;" and that "no narrow views of the mere pecuniary interests of its proprietors should exclusively control its actions," they must extend the obligations of the Governor and Company beyond the

duty to pay their debt in the lawful money of the realm, agreeably to the promise contained in the promissory note ; allusion must be here made to the delivery of bullion, of merchandise, and not to the payment of a sum of money—to pay the notes with bullion is no duty of the Bank of England, because the Bank, having no commodities with which to purchase this bullion abroad, cannot obtain it with “integrity and good faith.”

To oblige others, by means of contraction or exorbitant interest, to export their goods, lowered in price, in order to purchase, with these cheapened goods, the bullion required by the Bank of England to pay their debts with bullion, which the Bank can purchase in the *home market* with their notes, when it is *imported*, so far from being the “proper means” of “maintaining the practical convertibility” of the bank note, or, in appropriate language, the payment of the note, is a direct violation of “integrity and good faith ;” nor am I aware that any Act of Parliament has expressly conferred such a power or such a privilege on the Bank of England, and “science” would disclaim any association with the performance of a promise or the payment of a debt.

The obligation of the Bank of England is defined and limited by the terms of the contract, as expressed in the note and in the bank credit, to the payment in money, to pay pounds or sovereigns the money of the realm ; it does not extend to pay bullion or merchandise, which is not a legal tender in the payment of debt—the note being payable in money to the bearer implies that it is payable where that money is current.

To supply the foreign trade, the international trade of the great mercantile republic with bullion is foreign to the obligation, and to the duty of the Bank of England.

Because one or more members of this great community, the international traders of the world, find bullion the most convenient commodity with which,

to purchase goods abroad, or to pay their foreign debts, is the Bank of England to find this bullion either directly or indirectly, either by buying it in the home market, or by lowering the prices of commodities, that these cheapened goods may be the means of importing it from abroad, to the great loss of the owners? Is the Bank of England to furnish bullion to the subjects of France, or of Spain, or of the United States, or of our East Indian Empire, or of the Emperor of China, at a loss of 20 or 30 per cent. to the subjects of Great Britain who import it, because these remote countries have need of this convenient commodity?

Sir Robert Peel (p. 11) quotes the words of Mr. Harris:—

“Take the opinion of Mr. Harris, an officer of the mint, and an eminent writer on the subject, a century before the Bank Restriction Act.”

“All payments abroad are regulated by the course of exchange, and that is founded on the intrinsic value and not on the mere names of coins. We may break the public faith here, and curtail the long established measure of property, but foreigners will make ample allowance for what we may do; and however we may rob and cheat one another, will secure themselves, and make advantage of our discredit, by bringing the exchanges against us beyond the par.”

What is the established measure of property in this country? The gold coin the “sovereign,” the only legal tender for payment to any amount; that measure of value is adopted in the national circulation, but the obligation of the Bank is extended beyond its legitimate sphere when the notes are paid in bullion. The debt must be paid to the foreigner by those who owe it, the foreigner will secure himself; but at whose expense is this bullion procured? Not at the expense of the Bank of England, who erroneously undertake to pay it; but at the cost of holders of goods and securities lowered purposely in value, without their consent, and who may have had nothing to

do with the Bank of England, the foreigner or the exchanges; and may it not be said that "we rob and cheat one another," to use the words of Mr. Harris, when we levy a sort of forced contribution upon one portion of the community, to enable the Bank of England to supply the great mercantile republic with bullion, a commodity, with the supply of which neither the community, the Bank of England, nor the country has anything to do?

The advocates of the Bank Act have given three meanings to the word money: coin, and Bank of England notes payable on demand in coin, and also bullion when demanded for exportation. The Bank of England should be bound and limited by its contract, which excludes all reference to the prices of commodities, to bullion, to the exchanges, or to the currency of other countries.

I submit that the Bank of England is lowered from its true position of paying its debts from its own assets, to the unworthy proceeding of enforcing upon others an importation of bullion, in exchange for *their* goods, lowered in price that the Bank of England may with this bullion discharge their assumed but unfounded obligation, of paying their notes with this *merchandise*.

Referring to the statement p. 520 *antè*, it must have become a question how the difference between the bullion received and the available notes given for it, being 6,176,270*l.*, was to be disposed of. Sir Robert Peel (p. 500 *antè*) stated, on introducing the bill, that bank notes would be given to the banking department for 14,000,000*l.* issued on securities and 16,000,000*l.* on bullion, the whole amount; and that the excess of notes beyond the requirements of "the legitimate demands of commerce," which he supposed might be 22,000,000*l.*, would "necessarily lie *dormant* in the coffers of the banking department;" it was, however, determined and enacted that the excess of bullion should remain to the credit of the

issue department, and instead of *notes* to this amount lying dormant in the *banking department*, the excess of *bullion* itself should lie *dormant* in the *issue department*, whence it cannot be drawn, because no notes were given for it, and notes cannot be spared from the circulation to demand it.

Lord Overstone, July 7, 1857 (3649):

“The bullion now lies in the Issue Department, which is nothing more than a department of the State, worked mechanically and clerically by the clerks of the Bank of England; but it is essentially a department of the State.”

His Lordship enters his protest against the expression, “bullion in the Bank of England,” and states—

“The object of the regulations of 1844 was, not to secure the maintenance generally of a much larger amount of bullion than there was before, but to protect the bullion from the possibility, under any circumstances whatever, of falling below a safe amount.”

Was this a justifiable proceeding? to receive bullion on condition of restoring it either in payment of cheques or notes; and afterwards to enact that it should be obtained only by notes, which could not be spared from the circulation?

Sir Robert Peel (p. 163, *antè*) proposes:—

“That the issue of bank notes should hereafter take place on two foundations, and two foundations only:—First, on a definite amount of public securities; secondly, exclusively upon bullion. The action of the public will regulate the amount of that portion of the note circulation which is issued upon bullion.”

I have endeavoured to show that the circulation rests now upon the same foundation as before the passing of the Bank Act: it rests upon the bullion and securities paid as *assets* for the notes given, and with a guarantee fund of the proprietors' capital, and the rest, or undivided profits. The community among whom the bank *notes* circulate have full confidence

in the integrity and good faith of the Bank of England, without caring whether the notes are issued upon bullion or other securities. I believe it is true that no notes for circulation are issued upon bullion and securities differently now from what took place before the passing of the Bank Act. "The action of the public," of the public among whom the notes circulate, will determine the amount of the note circulation, as the wants of the *community* may require it.

The notes required to procure gold *for exportation*, and which do not remain in circulation, have no reference to the action of *this* public, of the public who determine the amount of circulation, but to the action of the *great mercantile republic*, who act upon the exchanges, and require gold, not for circulation, but for the foreign trade, which is quite distinct from the action of the public who want only bank notes and coin. Sir Robert Peel confounds the action of the *public* for coin and notes for circulation, the national wants and national circulation, with the requirements of the *great mercantile republic*, the international traders of the world—who govern the exchanges agreeably to *their* wants, by the exchange of commodities when profit attends their export, or by the export of bullion when this is the most *convenient commodity*, in consequence of the sale in distant countries of other *goods*, leaving no profit or a loss. By the present system the distinction between the national public and the great mercantile republic is not acknowledged, and we make the trade of the British public, the industry of Great Britain, subservient to the convenience of the wide-spread commercial world.

CHAP. XII.

ON THE OBLIGATION OF THE BANK OF ENGLAND NOTE. ON THE WANTS OF CUSTOMERS, AND THE ISSUE OF PAPER MONEY. ON REDUNDANCY OF THE CURRENCY. ON EXCLUSIVE COINAGE AND EXCLUSIVE ISSUE OF NOTES. ON BULLION AND THE GREAT MERCANTILE REPUBLIC. ON PAYMENT WITH UNCOINED GOLD. ON THE EXPORTATION OF BULLION.

THE Committee observe, Section 60, p. 427, *antè* :—

“For the opinions of the most eminent writers on the subject of the currency, your Committee refer to the evidence taken in 1857. It is interesting in the highest degree to all who make the scientific study of the most abstruse questions of political economy their pursuit.”

It may well be asked, what are “the most abstruse questions of political economy,” here alluded to? It cannot be the subject of the Bank of England promissory note; it cannot be this portion of the currency: the promise to pay a debt in the money of the country, agreeably to the terms of the contract, is no “subject of “political economy,” nor of “scientific study:” the obligation to pay a debt and to perform a promise must be determined by the rules of justice, of which Adam Smith observes:—

“Justice is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society, that fabric, which to raise and support seems in this world, if I may say so, to have been the peculiar and darling care of nature, must in a moment crumble into atoms.” See p. 120, *antè*.

Let nations beware how they violate the rules of justice.

“The first duty of the Bank of England is, so to conduct its affairs, as to secure means for the performance of all its engagements with integrity and good faith.”

These are the words of the Committee of the House of Lords, and it well becomes that truly noble institution, the last Court of Appeal in questions relating to property, to consider whether the Bank of England performs its engagement “with integrity and good faith,” when it pays its debt with merchandise instead of money, with bullion instead of coin; with bullion obtained by lowering the prices of goods, the property of others.

4177. Lord Overstone is at great pains to show that the wants of customers are not a safe regulator for those who issue paper money. In allusion to the disasters of 1793, his Lordship observes: “Now mark how far the regulation, by the wants of customers, is a safe principle.”

It would be a very unsafe principle for the banker to regulate his loans by the wants of customers; but his imprudence would have little or no effect upon the amount of circulation, which would be determined by the quantity of goods to be circulated; the surplus of issue would be returned to the issuer, and the loan would be a debt from the customer to the lender, and would be independent of the currency. And when it is said (as reported by Mr. Chalmers), in the same paragraph of evidence: “The efforts of the country bankers to force their paper into circulation had principally occasioned the redundancy of the currency,” this is mistaking the currency for loan. There may have been, and doubtless was, a redundancy of loan, but those efforts of each banker to force his notes into circulation would prevent the redundancy instead of promoting it, as his notes would be displacing the notes of his neighbour; the circulation would not be determined in amount by the banker or his customers, but by the wants of the community,

which are quite distinct from the wants of customers ; and the efforts of bankers to supplant their neighbour's paper-money and to introduce their own, will, I submit, be a more legitimate control than being "subjected to such a restraining principle as the Act of 1844 applies to them."

Sir Robert Peel, p. 33:—

"Some have contended, and I am not prepared to deny the position, that if we had a new state of society to deal with, the wisest plan would be, to claim for the State the exclusive privilege of the issue of promissory notes, as we have claimed for it the exclusive privilege of coinage."

But the exclusive privilege of coinage is quite distinct from the exclusive privilege of *issuing coins*; the State does not claim the exclusive issue of coins, as Sir Robert Peel would claim for the State the exclusive issue of promissory notes; the exclusive privilege of issue bears no analogy to the exclusive privilege of coinage; the exclusive privilege of coinage is to preserve in its pure state the measure of value, the gold coin: any person who brings uncoined standard gold to the Mint may receive its value in coins; the issue is not limited; and if the issue were limited, it would lead to the same mischief and embarrassment which now attend the limitation of promissory notes.

When Sir Robert Peel observes, p. 34, "If the State had the exclusive power of issuing paper, there would be established a controlling power, which would insure, as far as possible, an equilibrium in the currency," I confess I know not what is meant by "equilibrium." Is it an *equivalency* between gold coin and bank paper?—that will be insured by the payment of the note in coin. Is it an *equivalency* between gold bullion and bank paper?—that is entirely foreign to the obligation of the bank notes. Is it an *equilibrium* or *equivalency* between the currency of this country and of other countries?—that will be

adjusted by the bill-brokers and money or bullion dealers, who rectify or regulate the foreign exchanges.

Referring to p. 85, *antè*, it will be seen that Adam Smith, B. 4. c. 1, observes:—

“ There is in all great commercial countries a good deal of bullion alternately imported and exported for the purposes of foreign trade. This bullion, as it circulates amongst different commercial countries in the same manner as the national coin circulates in every particular country, may be considered as the money of the great mercantile republic.”

He says, “*may be considered* as the money;” he does not call it “money,” he does not take it out of the category of goods.

He also says, p. 85, *antè*:—

“ The great annual importation of gold and silver is neither for the purpose of plate nor of coin, but of foreign trade. A round about foreign trade of consumption can be carried on more advantageously by means of these metals than of almost any other goods, &c.”

And in the same paragraph he says: “of all *commodities*” and “any other sort of *merchandise*.”

And p. 86, *antè*, “The Bank of Amsterdam has, for these many years past, been the great warehouse of Europe for bullion.” The Bank of Amsterdam is called *the warehouse*.

Of coins Adam Smith observes, B. 1. c. 4:—

“ The inconveniency and difficulty of weighing those metals with exactness gave occasion to the institution of coins, of which the stamp, covering entirely both sides of the piece and sometimes the edges too, was supposed to ascertain not only the fineness but the weight of the metal. Such coins, therefore, were received by tale, as at present, without the trouble of weighing.”

And Judge Blackstone, B. 1. c. 7:—

“ Every particular nation fixes on its own impression, that the weight and standard (wherein consists the intrinsic value) may both be known by inspection only.”

The above extracts deserve the attention of those who consider *uncoined* gold money.

I may be thought too diffuse in urging the necessity of the Bank of England paying its notes with money, with coins, and not with bullion, which is merchandise; but I think the whole question turns upon the performance of the *promise* agreeably to the contract.

It should be the object of the State to place the payment of the promissory note in consistency with the payment of all other debts, and with the performance of all other contracts to pay money. Surely the Legislature should acknowledge this great truth, that a debt should be paid with money only, and conformably to the common meaning of the word "pound" or "sovereign."

The Legislature has declared it to be illegal to pay wages in certain trades with merchandise (by an Act of Parliament, the 1 & 2 of William IV. c. 37), the property of the employer; may not National Banks be prohibited to pay debts with merchandise, the property of another, obtained either directly or indirectly? We have seen in the instances of the louis d'or, and moidores, adduced by Lord Liverpool, p. 21, *antè*, how small a profit will determine those who are concerned "in remitting money," or "in melting the coins;" the advantage of $5\frac{1}{4}$ d. per louis d'or brought the louis d'or into the kingdom, and a loss of $\frac{3}{4}$ d. per louis d'or drove them out of circulation; and "a profit of 5d. per moidore, brought the moidores into the kingdom, and a loss of 1d. per moidore sent them all out again."

The object should be not to prevent the exportation of bullion, the most convenient commodity under certain circumstances of commerce, but to prevent that exportation interfering with the domestic circulation of paper money or with credit; and we should make it the interest of the exporting merchant, and of all the community, to conform to the arrangement.

CHAP. XIII.

STATEMENTS OF THE BANK OF ENGLAND. A DIFFERENT FORM OF STATEMENT. MR. HUBBARD ON THE ISSUE DEPARTMENT. ON NOTES NOT BEING GIVEN FOR ALL THE BULLION. ON COINS FOR THE NATIONAL CIRCULATION, AND BULLION FOR THE FOREIGN DEMAND. MR. MILL ON THE BANK ACT.

Bank of England, 9th May, 1857.

ISSUE DEPARTMENT.

Dr.		Cr.	
Notes issued . . .	£23,567,945	Government Debt .	£11,015,000
		Other securities .	3,459,900
		Gold	9,092,945
	<u>£23,567,945</u>		<u>£23,567,945</u>

BANKING DEPARTMENT.

Capital	£14,553,000	Government securities	
Rest	3,328,676		£10,303,838
Public deposits . .	5,163,146	Other securities .	18,630,357
Other deposits . .	10,081,864	Notes	4,226,355
Seven-day bills . .	749,046	Gold and Silver coin	715,182
	<u>£33,875,732</u>		<u>£33,875,732</u>

T. M. Weguelin, Esq., M.P., 22nd May, 1857.

849. Will you have the goodness to look at this paper, which exhibits the same account in another form?

(The following paper was shown to the witness.)

Bank of England, 9th May, 1857.

Dr.		Cr.	
Capital	£14,553,000	Government debt .	£11,015,100
Rest	3,328,676	„ securities	13,763,738
Public deposits . .	5,163,146	Other securities .	18,630,357
Other deposits . .	10,081,864	Bullion { 4,866,590 }	9,808,127
Circulation notes . .	19,341,590	{ 4,941,537 }	
Seven-day bills . .	749,046		
	<u>£53,217,322</u>		<u>£53,217,322</u>

850. The paper I have now handed to you represents the same account (the Bank of England weekly statement of the 9th May, 1857), stating the whole assets of the Bank on one side, and the whole liabilities on the other in the way in which we have been talking about them, does it not?—Yes.

858. Then the whole of this machinery amounts simply to this; that the whole of the liabilities of the Bank, on the one hand, having an equal legal claim upon the whole of the assets, whether they consist of securities or whether they consist of bullion, you have 9,808,127*l.* as the reserve against those liabilities?—Yes, you must except, however, the capital and the rest as having an equal claim; the deposits and notes and seven-day bills of course have the preference.

859. The proprietors' capital and the rest, no doubt, are claims which would not rank until the other claims were paid, but still in making out the accounts those ought to be put as a debit to the Bank?—Yes.

860. — This statement of account is very good, provided there is no limitation upon your issue.

861. Assuming that the same limitation is to be kept, and supposing it were to be enacted that, on the one hand, under no circumstances should the Bank of England hold less bullion than the difference between the circulation in the hands of the public and the fixed amount of securities, and on the other hand they should never hold a less amount of Government securities than that fixed amount, the rest being left to the discretion of the Bank of England, as at present, would not all the objects of the Act be gained?—The public would draw the same inference as they do now from the statement of our reserve. The public would feel the moment our bullion came down to 10,000,000*l.* or 9,000,000*l.* as the case might be, that the power of the Bank to issue to the public was becoming more and more limited. They would recollect that in 1847, when the bullion was reduced to 8,500,000*l.*, the power of the Bank was then restricted to about 1,100,000*l.* Whatever statement of account is adopted, there will be the same effect from the same series of causes.

J. G. Hubbard, Esq., 19th June, 1857.

2340. What do you think in general has been the effect of the separation of the two departments upon the issue department?

“The office of the issue department is the simplest that

can be imagined. The constitution of the issue department assumes and enacts the creation of 14,000,000 of credit paper, and subsequently a mere exchange of notes for any gold that is brought to it, and the re-exchange of those notes for gold, when gold is required. It is so purely a mechanical operation, one in which there is no room for opinion or feeling, that very little can be said about it; it is the simplest and the most useful proposition that can be conceived for putting our currency upon a perfectly solid basis."

2344. You believe therefore that the effect of the present Act has been indirectly, though not by express enactment, to compel the Bank to keep a minimum reserve of not less than 8,000,000l.?—That has been its practical effect.

It must be recollected that there was lying in the issue department six or seven millions of bullion, for which no available notes were given to that department, and which, therefore, could not be claimed for want of notes; that the word "gold" means *bullion* which is exchanged for notes payable in *coin*; that bullion is only a *commodity*, which is here substituted for *money*; and that what happens in the issue department, as respects the 8,000,000l. in deposit, or bullion reserve, would take place with any storekeeper who received goods under an engagement to restore them when demanded, or any trustee or banker who received money in deposit, and gave *available* receipts for only one half the amount—the property, whether goods or money, could not all be claimed.

I submit that the issue department is not warranted in withholding receipts or available bank notes for about one half of the bullion; and is not warranted in paying those notes of the Bank of England with *bullion*; not being authorised by the tenor of the note to do this.

I have said, p. 263 *antè*: "The Bank of England has two sets of customers—those who are engaged in the home trade of commerce, and manufacturers and agriculture; and those who are engaged in foreign commerce;" the former require only coin and bank

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notes for the domestic circulation, the latter require bullion for exportation, when the most convenient commodity, to pay debts abroad or to purchase goods abroad, when the markets there offer no advantage and perhaps loss in the sale of other commodities.

I submit that the claim of these last customers who demand *bullion* for exportation should be utterly rejected; that the Bank of England is under no obligation to pay their notes with bullion; that the members of the great mercantile republic should purchase with their own goods or securities the bullion they require; that the trade in money for the national circulation should be the business of the banker, and the trade in bullion, either to correct or regulate the exchanges, or to pay debt abroad, or to purchase goods abroad, should be the business of the bullion dealer; that bullion or uncoined gold which is merchandise should not be confounded with coin, which is money in the country only where it circulates.

It will be seen by the following evidence of J. S. Mill, Esq., 12th June, 1857, that he makes no distinction between the Banks of Amsterdam and Hamburg which issue no promissory notes, and the Bank of England which issues promissory notes.

2110. Are you acquainted with the constitution of the Banks of Hamburg and Amsterdam?—I have a general acquaintance with them.

2111. In the case of both of those Banks, are not all the notes which they issue represented by bullion actually existing in their coffers?—Yes; that was the supposition, but it was found not to be the case in the Bank of Amsterdam at the time of the events which followed the French Revolution; the bullion in deposit in the Bank of Amsterdam was found to have been deficient.

2112. Was not that supposed to be an accidental circumstance owing to the pressure of the Revolutionary war at the time?—I think it was supposed that the deficiency had existed long before that time.

2113. But it was a principle in the constitution of those two Banks, that all the notes were actually represented by bullion in their coffers?—Yes.

2114. Therefore their circulation must have varied exactly upon the principle which has been laid down in the Act of 1844, viz. that it should vary exactly as a metallic circulation would vary?—Yes.

In p. 161 *antè*, I have given an extract from the evidence of P. H. Muntz, Esq., before the Committee of the House of Commons in 1848, respecting the monetary system in Hamburg.

1345. Are you acquainted with the monetary system of Hamburg?—I am.

1346. Will you be kind enough to state in what way the monetary system there is conducted?—There are two monies in Hamburg; there is the current money for ordinary purposes, and there is what is called “banco,” which is 25 per cent. better value, and which represents silver deposited in the Bank of Hamburg; there are no notes issued at all.

1348. Then the commercial obligations at Hamburg are discharged by cheques, which transfer payment to the debit of one party, and to the credit of another?—Entirely so.

1351. Then you think Hamburg under that system of transferring payments at the Bank would have had no panic last year, but for the return of the bills of exchange drawn upon England?—I do not think they would.

For an account of the Bank of Amsterdam, see chap. 7, p. 70 *antè*; no promissory notes being issued by this Bank or that of Hamburg, they offer no comparison with the Bank of England in this respect.

Mr. Mill:—

2011. “My opinion is that there should not be any restriction by law, except that of convertibility, which appears to me to be sufficient for all the purposes for which restriction is intended.”

Convertibility here includes payment with bullion to the great mercantile republic.

2104. “I think the operation of the Act is beneficial when a drain arises from one particular cause, viz. previous over-speculation.”

I submit that the Bank should pay its notes only with coins, and should exercise no control over the currency or over prices, and no interference with the free trade of individuals.

CHAP. XIV.

THE BANK OF ENGLAND NOTE NOT PAYABLE IN BULLION—THE PRECIOUS METALS NOW INCLUDED IN IMPORTS AND EXPORTS—ON THE BULLION BEING CLAIMED WITH NOTES ONLY—THE JUSTICE OF THIS TO THE DEPOSITORS OF BULLION TO BE CONSIDERED—THE BANK OF ENGLAND NOTE PAYABLE ONLY WITH COIN—ON THE PREVENTION OF BULLION BEING EXPORTED FROM LIVERPOOL—ON THE WITNESSES EXAMINED—ON INTEREST AND THE CURRENCY—ON THE OBLIGATION OF THE BANK-NOTE.

IN the first part of this Treatise I proposed, as a remedy for the great disorders and injustice attending the present system (p. 175 *antè*), "I submit that the remedy is for the great mercantile republic to retain always possession of its own bullion, and to reduce the liability of the Bank of England to the duty of paying its own notes and deposits from its own resources, as other bankers."

I was under the impression, which was erroneous, that the Bank of England was bound to pay its notes with *bullion*, when demanded ; and I proposed to relieve the Bank by the establishment of a Bullion Warehouse, in which the owners should each retain possession of his own bullion, as of any other article which is bonded for exportation.

I entered fully on the subject in Chaps. 5, 6, and 7, and I explained my views of adopting a silver standard.

At present our attention may be confined to the expediency of a Bullion Warehouse, where the owners may transfer their property in the precious metals, to the purchaser, at certain established rates—somewhat similar to the Bank at Amsterdam, and the present Bank at Hamburg.

As I observed (p. 91 *antè*), “The object is to separate the bullion which is imported and exported, for the purposes of foreign trade, from the National Bank, and from all Banks issuing promissory notes.”

At the conclusion of my Treatise (p. 374 *antè*), “I submitted that the Bank of England should have nothing to do with the exportation and importation, or with the trade, of bullion. It is a commodity which should be viewed, with regard to the foreign trade, in the same light as tobacco or sugar, and should be included by the Chancellor of the Exchequer in the financial statement of exports and imports: if not included, and one million of manufactures were exported to Australia, for which the return was made in gold, the country would appear to export to the value of one million, for which no equivalent had been received, and the exports would seem to exceed the imports one million, when both were equal.”

It appears the Government acted upon my suggestion, a few months after the publication of my volume in June 1858:

“The following is the official return of the imports and exports of the precious metals, for the week ending the 24th November, 1858:

Imports, Gold	£312,480	Exports, £1,092,465
Do. Silver	248,638	Do. 167,625
	<u>£561,118</u>	<u>£1,260,090</u>

“The Gazette contains the following note, added to the foot of the exports and imports by the Inspector General:—

“The foregoing account includes considerable quantities of gold and silver, which were imported and exported between the 24th ult. and the 10th inst., such imports and exports having been first

notified to this office since the publication of the last weekly return.'”*

The Governor of the Bank of England (p. 538 *antè*) acknowledges the statement (849), to represent “the whole liabilities,” and “the whole assets,” of the weekly Bank statement of the 9th May, 1857. On the credit side the whole of the bullion (9,808,127*l.*) appears, and as the debit side and the credit side balance, there must be a corresponding debit: but in the weekly statements the whole of the bullion, deducting the gold and silver coin (715,182*l.*), making the amount 9,092,945*l.*, is placed to the credit of the issue department, and only bullion receipts or notes, to the amount of 4,226,355*l.*, the only means of demanding the bullion, are given to the banking department—being only so many notes as, *with the notes in circulation*, shall complete the amount of notes permitted to be issued. The consequence is, that about one-half of the bullion can never be claimed, but lies dormant in the issue department, and the bullion can never be exhausted, which forms the ground of so much exultation.

It is therefore, I submit, erroneous to say (7th July, 1857)—Lord Overstone (3740): “The Bank paper is the representative of gold, because it is the certificate of gold placed in deposit against it,” and (4089): “It must further be observed, that the 8,000,000*l.* or 9,000,000*l.* of bullion lying at that time (1847) in the issue department, was represented by a corresponding amount of bank-notes put forth by that department for the use of the public.”

Before the Bank Act the bullion placed in deposit could be demanded by the depositor, either with bank-notes or cheques on the Bank. By the new system the bullion can be claimed only with bank-notes—it cannot be demanded by cheques in virtue of the Bank credit.

* *Evening Mail*, November 26, 1858, “Money Market.”

How far it was just to receive the bullion in deposit, and afterwards impose conditions which entirely defeated the demand, for about one-half, is for the consideration of the Bank, and of the State. The Bank of England having given a credit for the amount of bullion deposited, is responsible to the depositor for the amount; and although this Bank credit is not available, and the bullion lies dormant in the issue department, yet the Bank cannot be called upon to give bank-notes while the Bank credit exists—the Bank would be twice debited for the same sum. Neither can the depositor be called upon to take notes from the circulation in order to claim the bullion which he has deposited; he has already paid for the bullion, and he cannot obtain bank-notes without paying the full value of the notes to the amount of the bullion: he would be paying both for the notes and bullion—he would be paying twice for the same sum. Both the Bank of England and the depositor are placed in a false position: the depositor cannot claim the bullion, and the Bank retains it without paying anything for it. The confusion arises from the bullion being obtainable only with notes, and not with cheques also; this is the case with that portion of the bullion which lies dormant in the issue department, and which forms the ground of so much exultation, that the bullion can never be exhausted (pp. 341, 342 *antè*).

If I have succeeded in showing that, agreeably to the contract expressed in the Bank of England note, there is no obligation to pay bullion or uncoined gold for exportation in discharge of the debt incurred; that the gold coin “the sovereign,” the money of Great Britain, is what the Governor and Company promise to pay, and not bullion, which is only a commodity; then all the reasoning respecting the circulation, founded upon the increase or diminution of *bullion*, falls to the ground—the expansion of issue in consequence of its increase, or contraction of issue in

consequence of its diminution, with all the fearful effects of contraction of the circulation, or raising the rate of discount, in order to check the efflux or cause an influx of the precious metals.

We bid adieu to the necessity of "sudden and violent reductions in the amount of paper-money, spreading ruin among the issuers of paper, and deranging the whole monetary transactions of the country;" "the paper currency will no longer be regulated by immediate reference to the foreign exchanges;" "no early contractions of paper on the efflux of gold;" "no demand for gold which cannot be satisfied;" no longer "much individual suffering and many fortunes ruined, from the necessity of sudden and violent efforts to establish, by contraction of issue, an equilibrium between gold and paper" (as depicted by Sir Robert Peel, pp. 27, 28, 30); no *raising* the rate of interest to an exorbitant rate; or *contraction* of the currency, producing (2113) "stoppage of trade," (2114) destruction of "the labour of the country," or (2117) stoppage "of credit" (as stated by J. Horsley Palmer, Esq., p. 207 *antè*).

Lord Overstone adduces what he considers "the crucial instance by which the validity of the principle was effectually tested;" the principle, I conclude, that the value of the money of this country is increased by its diminution, and that bullion consequently will flow into it from abroad.

4033. "It may assume the form of preventing any more money going out of this country. A very remarkable circumstance of that sort occurred in the spring of 1847. I detailed its history in my evidence of 1848." His lordship recounts his having advised the Bank of England: "Keep up your rate of interest, and do not fear the consequences." What was the result? Not one of those orders was executed; and the bullion on board the ships at Liverpool was taken out, and brought back, and deposited in the

vaults of the Bank of England; not one farthing of it ever left the country."

4035. "It was an order merely founded upon the state of the exchanges."

I submit that this bullion was merchandise, and not the "money" of this country; that the Bank of England ought to have no control over the exchanges; and that the preceding instance was an illustration of the power of the Bank to control the commerce of the country.

It has been truly observed: "No maxim of law or of common sense so readily commends itself to one's understanding as that which says that no man shall be a judge in his own cause; indeed, if its soundness is not seen at a glance, no amplification of discussion will be effectual to compel assent." *

It is remarked by Judge Blackstone, B. 1, C. 1, "So great, moreover, is the regard of the law for private property, that it will not authorize the least violation of it; no, not even for the general good of the whole community."

In section 60, p. 427 *antè*, to which I beg to refer, it is said: "That the opinion of the present Bank Directors is strongly in favour of maintaining the Act of 1844 appears in the evidence."

And in section 61, p. 428 *antè*: "In this opinion the Governor of the Bank of Ireland, the representatives of the chartered and unchartered banks of Scotland, the Chairman of the Association of Private Country Bankers, and Mr. Alderman Salomons, of the London and Westminster Bank, concur."

When Mr. Herries moved a resolution, on the 22nd of August, 1848, respecting the operation of the Bank Act, he observed: "Three years had not elapsed before they were called upon to abandon the measure which had been then introduced;" and "The

* "Justice of the Peace," v. 30. No. 20,

characters of the witnesses ought also to be kept in mind."

Mr. Cayley, M.P., who was a member of the Committee of 1857, and who proposed some resolutions which were not adopted, stated:

Of the witnesses examined by the Committee—

23 were bankers, whose examination lasted 22 days ;	
5 merchants or manufacturers	} 3 ,,
1 banker sent by the Chamber of Commerce	
of Leeds	
5 theoretical witnesses	5½ ,,
1 bill-broker	1½ ,,
2 accountants	1 ,,

It may be worthy of consideration, whether the opinions of the Bank Directors, and of Bankers generally, should not be received with some degree of caution, when examined upon a question which may concern their own interest, or that of the institutions which they represent, and in favour of which they may unconsciously have a bias.

John Twells, Esq., who had been a banker in London upwards of 50 years, stated in his evidence before the Committee, July 17th, 1857:

4488. How do you think that the Act of 1844 has operated?—If I were to answer you as a banker, I should say that it has operated exceedingly well, for it has afforded a rich harvest to bankers and capitalists of all kinds. But it has operated very badly to the honest, industrious tradesman, who requires steadiness in the rate of discount, that he may be able to make his arrangements with confidence; it must distress that class very much indeed. For large capitalists and bankers it is evident (there is no occasion to disguise the thing) that it has operated exceedingly well; it has made money-lending a most profitable pursuit to them.

4505. Taking the last three or four years, according to the Governor of the Bank, who has been examined, he considers that during those years, although they have been years of difficulty, the Act of 1844 has operated well; is that your opinion?—As far as I am able to judge of the

Bank of England, I should expect that it would operate very satisfactorily to them; it must save them a good deal of trouble and responsibility. I should think that they could have no cause to complain of the Act, because whatever distress it may produce, whether it does or does not, does not rest with them; they are merely the persons who carry out the Act.

It is worthy of remark that, about 1575, when the Court of the Mint in France recommended the King to summon persons from the different principal towns, to give their opinions respecting the remedy for the evils then prevailing in their monetary system, they say: After hearing whom, the question shall be decided by such a number of persons as his Majesty may choose, "*above suspicion in the matter, and having nothing to do with the management of the finances, or who have any traffic or dealings in money (faisans trafic ou négociation d'argent), on account of the inconveniences which have always resulted from their being summoned.*" *

Referring to the evidence of J. G. Hubbard, Esq., pp. 508—538 *antè*, whose opinions must have great weight from his experience—having been, with the exception of about five years, in the Bank direction since 1838, and who had been Deputy-Governor of the Bank from 1851 to 1853, and Governor from 1853 to 1855—I beg to observe that the ground on which he attributes such wonderful effects to the "limitation of the amount of credit paper" is much weakened by what he afterwards admits.

2661. — A very high rate of interest is the only cause I can think of which could induce people to economise their amount of currency, and to do with less; and that can have but a very limited effect.

2662. Even that effect, you think, must be very limited? — Very limited indeed.

* The words in italics are printed in capital letters in the original.—*Le Blanc*, p. 338.

2663. In the event of an increase of prices, or an enlargement of trade, an increase of currency becomes absolutely necessary, does it not?—Certainly.

2664. Therefore an increase of currency would follow as an effect, and not precede as a cause, such an increase of trade or increase of prices?—It would be a consequence of it.

2665. And a diminution of prices, or a contraction of trade, might lead to a contraction of the currency?—It would release a portion of the gold from its necessary function.

2666. So that in both cases the action upon the currency is the effect of changes in the state of trade, and not the cause?—Exactly so.

This agrees with the evidence of T. M. Weguelin, Esq., p. 494 *antè*, that the circulation “had been comparatively” very little affected by “the amount of the advances of capital,” or “the amount in securities held by the Bank.”

It is evident, I think, that the losses and sufferings attending our present system of banking do not arise from an over-issue of bank-notes, or from the payment of bank-notes in *coin*; but from an *assumed* obligation of the Bank of England to pay its notes with bullion, not for the *national* requirements of the circulation, but for the *international* wants of the great mercantile republic; an obligation not imposed by the tenor of the bank-note, by the words of the contract, or by the Act of Parliament. The 4th clause of the Bank Act entitles “All persons to demand from the Issue Department of the Bank of England Bank of England notes in exchange for gold bullion, at the rate of 3*l.* 17*s.* 9*d.* per ounce of standard gold.”

The Act does not entitle all persons to demand standard gold for *notes*.

To prevent *coins* being demanded instead of *bullion*, for the supply of the *great mercantile republic*, I have previously suggested, that the denomination of notes should not exceed 5*l.*, 10*l.*, or 20*l.*, as experience should show to be needful, and a bullion *warehouse* for the precious metals.

CHAP. XV.

ON BULLION BEING PREFERABLY PAID FOR WITH BANK OF ENGLAND NOTES—ON THE INCREASED RESERVE OF BULLION—ON THE BANK-NOTE BEING PAID FOR WITH BULLION—ON THE SEPARATION OF DEPARTMENTS—ON THE EXCHANGE OF GOLD FOR NOTES AND NOTES FOR GOLD (BULLION)—CONSEQUENCES OF THIS—ON THE CAUSES OF THE INCREASE OF THE RESERVE—MR. NORMAN, ON THE SEPARATION OF DEPARTMENTS, BELIEVES EXCHANGING GOLD FOR NOTES AND NOTES FOR GOLD (BULLION) TO BE THE SOLID BASIS OF THE CURRENCY—OPINIONS OF COLONEL TORRENS AND MR. RICARDO—ADAM SMITH AND RICARDO ON COMPETITION OF ISSUE.

G. W. NORMAN, Esq., 3 July, 1857.

3446. Is it the fact that nobody does send gold to the Mint to be coined, because there is a slight advantage in obtaining notes for gold?—Yes, there is a slight advantage.

3447. Is there not a difference in the price which they obtain above that which they get at the Mint?—The Bank purchase gold at somewhat below the Mint price, but, on the other hand, the loss of time that would be incurred in getting the bullion converted into coin makes it a little more advantageous to the person who has imported the bullion to sell it to the Bank, rather than to send it to the Mint to be coined.

3448. Taking all the circumstances into consideration, the price paid, and the loss of time and the trouble, there is a slight advantage in exchanging the gold for notes at the Bank, rather than sending bullion to the Mint to be coined.

I have suggested, p. 503 *antè*, the delivery of gold bullion from the warehouse at the rate of 3*l.* 17*s.* 9*d.*, but it may be proper to increase this advantage, and to deliver the bullion to the owner or to his representative by transfer, at the rate of 3*l.* 17*s.* 10½*d.* per ounce of standard gold, or even

something higher, if found necessary; or to lower the rate at which the bullion is paid for at the Bank, and instead of 3*l.* 17*s.* 9*d.*, to give only 3*l.* 17*s.* 8½*d.*, or even something less as a seignorage for coinage, which the national public might be willing to give; experience would determine the proper rate.

At the Mint the holder of bullion now receives gold coin at the rate of 3*l.* 17*s.* 10½*d.* per oz. of standard gold; there is no deduction for the expense of coinage. For the advantage recited in the above evidence he prefers receiving at once 3*l.* 17*s.* 9*d.* per oz.; he pays the difference of 1½*d.* per oz. for the convenience. As the proposed object is to separate entirely the domestic circulation of coins and bank-notes from all payment of the bank-note with bullion for exportation, if a sufficient inducement can be offered, there can be no doubt that the exporter would prefer taking bullion from the warehouse for exportation to taking coins from the Bank, the law forbidding the payment of notes with bullion. We should accomplish that which we have done with respect to the ancillary coins, we should take from the exporter all temptation and inclination to infringe the law.

Referring to p. 135 *antè*, it will be seen that the stock of—

Bullion in January, 1839, was	.	.	£9,336,000
And in October, 1839	.	.	2,525,000
Decrease of bullion	.	.	<u>6,811,000</u>
The circulation on January 10, 1839 was	.	.	18,201,000
Do. October 18, 1839 was	.	.	17,612,000
Decrease in the circulation	.	.	<u><u>£589,000</u></u>

This was before the passing of the Bank Act of 1844.

It is seen that the circulation varied only about half a million, while the bullion had decreased nearly seven millions.

It is said, in Section 60:—"The lowest points to which the bullion has fallen since 1844 have been: in 1847, 8,313,000*l.*, and in 1857, 6,080,000*l.*"

Whence arises this difference in the bullion retained before and after the Bank Act?

I submit that Lord Overstone has not assigned the true cause in supposing, 3649, p. 440 *antè*, "As the bullion has gone out, the money of the country has been diminished, until it reached a certain point, below which the national wants and necessities of the country would not permit it to be further diminished."

The *national* wants and necessities of the *country*, as respects the paper money, can refer only to the *circulation*, which, from the evidence, is very little affected by the export of bullion.

This reserve of bullion is not in the Banking department, the working department, but in the Issue department, whence it cannot be drawn, because no notes were given for it; it is not the *wants and necessities of the country*, or the *apparent* limitation of Issue, but an operation, not shown by the statements of the Bank, or propounded by the advocates of the Bank Act, the circumstance that no notes, the only means of demanding the bullion in the Issue department, were given to the Bank of England for about one half of the bullion received from the Bank.

It is the wants and necessities of the great mercantile republic which occasion the demand for the bullion in the Issue department for exportation, not the national or domestic wants of the *country*, which have reference only to the domestic circulation.

T. M. Weguelin, Esq., 3rd March, 1857.

241. "The notes issued on the discount of bills would be returned through the medium of the bankers, and through deposits. Unless these transactions were for the purpose of exporting bullion, and unless there were an amount of internal panic, which induced people to lock up their notes, and not to pay them into the hands of the bankers, as is

usually the case, the reserve would not be affected by the magnitude of the transactions."

439. "What governs our action is the state of the reserve, and the mode by which the reserve is affected."

440. The reserve is only affected by the demand for bullion. (See p. 252 *antè*.)

Let us keep constantly in view, that the promise expressed in the Bank of England note comprises the whole of the engagement of the Governor and Company, as respects the payment of their paper money.

Neither the promise nor the payment of the notes have any reference to bullion expressed or implied.

The Bank having undertaken to pay its notes in bullion, to correct the exchanges in order to protect its reserve of bullion, by raising the rate of discount, and thereby giving a shock to credit, appears to me to have undertaken to do that which is quite foreign to its *duty*, as bankers; the bullion is an asset of the Bank; the goods and securities lowered in value to correct the exchanges are not the property of the Bank; and Mr. Weguelin (607), p. 252 *antè*: "It is the trade of the country which must influence the exchanges." Surely the foreign merchants are well able to manage their foreign trade, of which the exchanges form a part, without the assistance of any national Bank. As Mr. Weguelin, p. 539 *antè*, admitted the statement of account (849) submitted to him "to be very good, provided there is no limitation upon your issue," I would observe that the limitation of issue could not affect the debits and credits as they balance; and no notice is taken of the important fact that all the bullion, 9,808,127*l.*, is on the credit side of the account submitted, and only notes or bullion 4,226,35*l.* and the gold and silver coin 715,182*l.*, on the credit side of the Banking department.

Mr. Weguelin gives the following reason why 14,000,000*l.* was fixed on, as the limit of the active circulation on securities:—

95. "The reason, I believe, why 14,000,000*l.* was fixed by the authors of the Act of 1844 was, that the active circulation had never gone down below that, or even as low as 14,000,000*l.* I believe the lowest amount of the circulation was in 1839, and then it was 15,800,000*l.*" I believe that included bank post bills 1,000,000*l.*, and it also included lost notes 600,000*l.*, which have been subsequently written off."

It does not appear that Mr. Weguelin was examined as to the cause of the increase in the amount of the bullion reserve since 1844.

Mr. Hubbard: (2325) "Will you state what you think has been the effect of the separation (of the departments of the Bank of England) since 1844?"—"I think the effect of that separation has been, both in a scientific and in a practical view, of the utmost importance and highly beneficial. It has been so in a scientific view, because the effect of the separation was to give a legal affirmation to the true character of currency, by removing it from being confounded with bills of exchange, with promissory notes, with deposits, and with book debts, and, in fact, from the whole category of mere banking expedients and representatives of credit. Then, in a practical point of view, I conceive that it has been highly beneficial, because it has enabled the Bank of England to give its attention wholly to those concerns to which alone a banker ought to have to direct his attention; namely, to a consideration of his liabilities upon his deposit accounts, and the claims likely to be made upon him for advances by his various customers."

Mr. Hubbard differs from Sir Robert Peel (p. 142 *antè*), who defines paper *currency*: "In using the words paper currency, I mean only such promissory notes"—"promissory notes payable to the bearer on demand."

Mr. Hubbard would not confound "currency with promissory notes;" or with "the representatives of credit," and (p. 508 *antè*), he describes the Bank of England note as being "a security which is realised," and "you cannot have security without limitation."

Among the "various customers" alluded to must be included, I conclude, the international traders or foreign merchants who demand bullion for exportation, the great mercantile republic, who have, as such, neither "deposits" nor "book debts" with the Bank of England, to whom the Bank of England are under no liabilities, and whose claim or demand for *bullion* ought to be utterly rejected, and on which I have commented (pp. 540, 541 *antè*): "The office of the Issue department is not so simple" as Mr. Hubbard imagines (p. 539 *antè*); it may put "our currency upon a perfectly *solid* basis," but I much doubt whether that basis is consistent with the promise or the tenor of the bank-note; and how the present Act "compels" the Bank to keep a minimum reserve of not less than 8,000,000*l.* is not explained. It is stated only, "That has been its practical effect." Lord Ashburton terms, p. 9, the separation of the two departments "a fanciful piece of mere book-keeping;" "the simple question is what engagements can they safely incur? What means can they command?" What means can the Bank of England command to obtain bullion from abroad? What means have they to pay for this bullion? Can they safely incur the engagement to pay their notes with bullion at the expense of others? When gold bullion is taken to the Issue department, and bank-notes are given by that department for the amount, at the rate of 3*l.* 17*s.* 9*d.* per ounce of standard gold, this is conformably to the enactment (clause 4) which entitles all persons to demand notes in exchange for bullion; this was allowed, no doubt, to mitigate the effects of the limitation of issue. The notes thus received must be employed in buying, or paying debts in the home market; and these notes not being wanted in the circulation, which varies very little, will be deposited in the absence of panic in the Banking department, and increase the reserve; but the bullion received by the Issue department for these

notes will also be a means of furnishing notes to the Banking department. This transaction, therefore, may double the amount of notes ; the notes received for the bullion, and also the amount of bullion. This creates a redundancy in the reserve, and forms the ground of *lowering* the Bank of England's rate of interest, or of its being kept low, in order "to employ the reserve in the Banking department" (608), p. 295 *antè*.

When notes are taken to the Issue department, whether by the Bank of England or any other Bank, and bullion is given for these notes, the notes are cancelled (3465), and the bullion, as it does not circulate, will very probably be exported. The notes which were given for the bullion must have been withdrawn from the Banking department, as they could not be spared from the circulation ; this lessens the amount of the reserve, and occasions the Bank of England to raise the rate of interest, when the reserve is diminished to an inconvenient degree, in order to lower the prices of goods and securities, to check the efflux of bullion, or to bring back the bullion which has been exported. This last operation is not authorised by the Bank Act, which does not give the public the power of demanding bullion in payment of the Bank of England notes.

Both these operations arise from the currency being made dependent upon bullion for its increase or diminution, with which the Bank of England should have nothing to do, beyond advancing money upon it as an asset, as upon other merchandise or as upon securities, regardless of its importation or exportation.

As so much importance is attached by Lord Overstone to "the separation of the accounts" (p. 440 *antè*), it appears extraordinary that this last discrepancy between the enactment of the Bank Act and the practice of the Bank and of other bankers, was not noticed.

I submit that the separation of departments should

be suppressed, that the statement of the Bank of England should be like that of other banks, and the payment of the bank-note should be confined to money, agreeably to the Bank engagement.

Lord Overstone, 7th July, 1857 :—

3649. “It is an undoubted fact that the bullion reserves of the Bank since 1844 have been greater than they were in an equal period before 1844, whether we look to the average or whether we look to the minimum. Different opinions have been expressed to this Committee as to the cause of that increase. Some persons have expressed an opinion that it has been owing to the operation of the Act of 1844 ; and others that it has been due to natural causes, and particularly to the increased production of gold. What is your Lordship’s opinion on that subject ? ”

His Lordship states : “The object of the regulations of 1844 was, ‘to protect the bullion from the possibility, under any circumstances whatever, of falling below a safe amount.’ ”

“The phenomenon before us is this, that under two separate periods of trial, the bullion in each case has been reduced to the lowest amount which the Act will permit, and that amount on both occasions proves to be somewhere about 8,000,000*l*.”

His Lordship does not state what those “regulations” were, or how “the Act” produces the “phenomenon.”

Section 60. The Committee report : “That the supply necessarily maintained in the coffers of that establishment, under the provisions of the Act of 1844, is greater than that which was ever maintained under circumstances of pressure in former times, is a fact beyond dispute.”

The “provisions of the Act of 1844,” which “necessarily” maintained this greater supply of bullion, are not stated.

G. W. Norman, Esq., 3rd July, 1857 :

3452. “Do you consider what is called the separation of the departments is an essential part of the system ? ” “I

think it is a really vital part of the system, and not merely a mode of stating the accounts."

3453. "In what way?"—"Because it necessarily leads to the fact that the issues of bank-notes vary in all cases exactly as bullion would vary."

3454. "There is no regulation of the currency now; I greatly dislike anything like an artificial management of the currency. It seems to me that the currency of a country ought to be regulated by certain natural laws, and I wholly distrust all artificial plans for that purpose."

3455. "That is, you would regulate it wholly by the action of the public in exchanging gold for notes or notes for gold?"—"Exactly."

3456. "That you believe to be the only sound principle on which a currency can be regulated?"—"That I believe to be the only sound principle on which a currency can be regulated."

3457. "Is that practically in this country the effect of the Acts of 1844 and 1845?"—"It is."

Colonel Torrens observes, p. 237: "It has been satisfactorily shown by Mr. Ricardo that the exportation of coin is caused by its cheapness, and is therefore not the effect, but the cause of what is called an unfavourable balance of payments."

I have commented on this subject, p. 245 *antè*, and observed: "The profit or loss is on the commodities, and not on the silver or gold."

And he proceeds:—

"An unfavourable balance of foreign payments means, that of all commodities, exclusive of the precious metals, a country has brought from other countries more than it has sold to them; that a debt, therefore, is owing by that country which she must pay in the cheapest way she can, and that an export of specie is the cheapest way of discharging the debt. But why is the export of specie a cheaper way of discharging the debt than the export of any other commodity? Because the prices of all other commodities are high, i.e., in other words, because the value of specie, as compared with other commodities, is low. Therefore it is the low value of the bullion which causes it to be exported. But the low

value of bullion is the same thing as low value or depreciation of the currency; for if the currency was not at a low value in common with the bullion, the bullion, instead of being exported, would be converted into currency, either by coining it or by obtaining bank-notes in exchange for it."

Why should "the precious metals" be excluded from the commodities which occasion an "unfavourable balance of foreign payments." I have observed, p. 374 *antè*, that bullion "should be viewed as any other commodity," and, p. 544 *antè*, The precious metals are now included among the exports and imports; they must be paid for, and must influence the balance of debt; and should, therefore, not be excluded.

It is a fundamental error to suppose that the high or low price of bullion, or of the currency, influences the exchanges, and the import and export of bullion; it is the high or low price of commodities which influences both.

Sir Robert Peel observes, p. 26: "Both these eminent writers (Adam Smith and Ricardo) assume that immediate convertibility into coin is all that is requisite to prevent the excessive issue of paper." It is extraordinary that the authority of Adam Smith should be associated with that of Ricardo, since Adam Smith contemplated the payment of the bank-note with *coin*, and Ricardo would limit it to ingots or bars of gold, of the weight of 60 oz. (See p. 479 *antè*); and then Sir Robert Peel speaks of the progress which "this science, like all other sciences, is making," as affording ground to "doubt the soundness" of their opinions, if convinced by "reason or experience." But the performance of a promise, and the payment of a debt agreeably to contract, rest neither upon the authority of Adam Smith nor of Ricardo, nor upon the progress of "science," but upon justice and truth; and I submit that experience confirms the opinion of Adam Smith, "that freedom of competition and immediate convertibility into *coin*, at the will of the

holder, will prevent the excessive circulation of paper," payable only in *coin*; and with a regulation, if needful, of the denomination of bank-notes. See pp. 551, 552, *antè*.

CHAP. XVI.

EXTRACT FROM SIR ROBERT PEEL'S SPEECH IN 1848—HE STATES THE GREAT TRUTHS WHICH SHOULD GOVERN OUR MONETARY SYSTEM—GUARANTEES FOR THE CONVERTIBILITY OF OUR PAPER MONEY—THE NECESSITY OF PRESSURE—OPPOSES ANY RELAXATION OF THE BANK ACT—REMARKS UPON HIS STATEMENT, AND UPON THE ACTION OF THE BANK OF ENGLAND.

SIR ROBERT PEEL in his speech in August 1848, about four years after the passing of the Bank Act, observed:—

“ I shall conclude with an earnest hope, that when the House shall again address itself to the consideration of this great question, with a view to some practical issue, they will bear in mind the great truths by which legislation on our monetary system should be governed;—that they will bear in mind that trade is not carried on with paper money, but with capital or with credit, of which capital is the foundation,—that the arbitrary issue of paper money is no increase of the wealth of the country,—that the rate of interest must vary with the value of money and the demand for it, and cannot be permanently regulated by the Bank of England,—that fixity in the value of the currency, that is, of the coin, or of the note which represents coin, and a guarantee that the note shall be at all times convertible into the precious metals, are essential to the welfare of all classes, but especially of that class which is in the receipt of the wages of daily labour. Depreciate the value of your currency, and the prices of all articles of subsistence will speedily follow the change; but there will be no corresponding rise in the rate of daily wages. The

two shillings, or three shillings, a day will continue to be paid, long after they shall have ceased to command that amount of the necessaries and comforts of life which they did command before the period of depreciation.

“The House will, I trust, continue to insist upon the maintenance of the standard of value, and upon the guarantees for the instant convertibility of paper into coin. Those guarantees you cannot have without restrictions upon the issue of paper. You cannot have them without pressure in the time of commercial discredit. Early pressure—pressure compelled by law, if it be not induced by prudence, so far from being the great evil which some consider it to be, may be the only preventive of great future disaster,—the only certain means of maintaining entire confidence in the paper circulation of the country.

May, 1847.—“If I, myself, thought that any relaxation of this Bill would be a cure for the evils which press upon us, I repeat, that I would not oppose its relaxation on account of the part which I took in introducing that measure to Parliament; but it is my firm belief, founded upon the information in my possession, that a temporary issue of some 2,000,000*l.* of paper would not increase that capital, which, in point of fact, is the source from which you can command the produce of other countries.”*

I beg to make, with due deference, some remarks upon these “great truths” propounded by Sir Robert Peel.

I submit, that trade is carried on with paper-money, resting upon *confidence* in the “fortune, probity, and prudence” of the banker: that this *confidence* is the foundation of credit to a much greater extent than capital; a *confidence* grounded upon the opinion entertained of the “probity and prudence” of the

* Hansard.

banker or merchant, as much, or more, than upon his "fortune," or capital.

That the "arbitrary issue of paper money" will not increase the amount in circulation, or to a very limited degree; that will be determined by the wants of the community in the exchange of goods bought and sold: the excess will be returned to the issuer.

That the rate of interest is not determined by the value of *money*, of the "sovereign" which has been declared by Act of Parliament the only *money* in Great Britain (see p. 445 *antè*), the rate of interest will be determined, in an uncontrolled state of the currency, by the profit to be made by the *use* of money, and not by the *value* of the *money* itself; it would be measuring the value of *money* by *money*, which is not possible.

The Bank of England may not be able *permanently* to regulate the rate of interest; but in the absence of the Usury laws, it has the power to raise the rate to any extent needful to procure bullion or Bank-notes, as the wants of the *Bank* may require: and the Joint Stock Banks are governed in the rate they charge, and other bankers in a great degree, by the rate of interest of the Bank of England.

Fixity in the value of the currency depends upon the coin being free from adulteration, and the Bank note being paid in that coin.

The maintenance of the standard of value depends upon the "sovereign" being free from adulteration.

Sir Robert Peel seems fully aware of the evil consequences of the depreciation of the Bank-note raising the prices of goods, but comparatively takes little notice of the evil consequences of an artificial scarcity of Bank-notes, distressing commerce, and lowering the prices of commodities and securities: these low prices of goods reducing, and perhaps destroying, the profit of the manufacturer, and his ability to give the same wages to the labourer which he

had been accustomed to receive, and, possibly, throwing him out of employment altogether ; at the same time causing great loss to the holders of securities.

There is no "guarantee" required that the "Bank" note shall be, at all times, convertible into the *precious metals*, uncoined gold. The Bank of England is under no obligation to pay its notes with that "bullion alternately imported and exported for the foreign trade."* That bullion is quite independent of the *national circulation* of coin and notes ; and as the Bank has no means of procuring this bullion from abroad, is it not the *duty* of the Bank of England *not* to pay its notes with bullion, and to repudiate every demand of the kind from the great mercantile Republic, who should themselves provide "the precious metals," the bullion they require, and at their own cost?

Referring to the last paragraph of Sir Robert Peel's speech, p. 564 *antè*, it may be asked *what* capital and *whose* capital is to *command* the produce of other countries? The Bank of England employs no capital to command it. Pressure upon the capital, or property of *others*, lowering the value of *their* goods or securities, supplies the place of capital in the action of the Bank, who want the produce of other countries, that is, the bullion, which, by the Bank Act, is made needful to the Bank, and which by *pressure* it procures at the cost of *others*.

* See p. 536, *antè*.

CHAP. XVII.

SUSPENSION OF THE BANK CHARTER ACT.*

STATEMENT OF THE GOVERNOR AND DEPUTY GOVERNOR OF THE BANK OF ENGLAND—THE GOVERNMENT LETTER—MR. WATKIN MOVES FOR A COMMISSION OF INQUIRY—DEBATE UPON THIS MOTION—MR. AKROYD ON THE FRENCH COMMISSION—SIR STAFFORD NORTHCOTE APPROVES OF INQUIRY, BUT DISAPPROVES OF THE MOTION—EXPRESSES THE GENERAL CONSENT OF THE GOVERNMENT TO THE PRINCIPLE OF THE BANK ACT—MR. FAWCETT ON THE NATURE OF THE CRISIS—MR. HUBBARD ON THE BANK ACT, AND SEPARATION OF DEPARTMENTS—MR. GLADSTONE ON THE BANK ACT, PROMISSORY NOTES, AND FOREIGN DRAINS OF BULLION—MR. HENLEY ON THE ACTION OF THE BANK—THE DEBATE ADJOURNED BUT NOT RESUMED.

A LETTER having been addressed by the Governor and Deputy Governor of the Bank of England to the Government on Friday, which stated that in consequence of the failure of Messrs. Overend, Gurney, and Co., they had advanced to the bankers, bill-brokers, and merchants in London, during the day, upwards of 4,000,000*l.* sterling, upon the security of Government stock and bills of exchange, and that they could not calculate upon having so much as 3,000,000*l.* next evening, making a fair allowance for what might be remaining at the branches, a reply to this, signed by the Premier and the Chancellor of the Exchequer, was immediately forwarded to the Bank of England.

It said: "The accounts and representations which have reached Her Majesty's Government during the day exhibit the state of things in the City as one of extraordinary distress and apprehension. Indeed,

* From the *Times* money article, Friday, May 11, 1866.

deputations composed of persons of the greatest weight and influence, and representing alike the private and joint-stock banks of London, have presented themselves in Downing Street, and have urged, with unanimity and with earnestness, the necessity of some intervention on the part of the State, to allay the anxiety which prevails, and which appears to have amounted through great part of the day to an absolute panic. Her Majesty's Government cannot doubt that it is their duty to adopt, without delay, the measures which seem to them best calculated to compose the public mind, and to avert the calamities which may threaten trade and industry. If, then, the Directors of the Bank of England, proceeding upon the prudent rules of action, by which their administration is usually governed, shall find that, in order to meet the wants of legitimate commerce, it is requisite to extend their discounts and advances upon approved securities, so as to require issues of notes beyond the limits fixed by law, Her Majesty's Government recommend that this necessity should be met immediately upon its occurrence, and that in that event they will not fail to make application to Parliament for its sanction. No such discount or advance, however, should be granted at a rate of interest less than ten per cent., and Her Majesty's Government reserve it to themselves to recommend, if they should see fit, the imposition of a higher rate. After deduction by the Bank of whatever it may consider to be a fair charge for its risk, expense, and trouble, the profits of these advances will accrue to the public."

In the late debate on the laws affecting "currency and banking" on the 31st July, of which the following is a short summary, when Mr. Watkin moved for a Royal Commission of inquiry, with an instruction to the Commissioners to present their report, and the evidence taken by them, on or before the 1st February, 1867:

He stated that, "the minimum rate of the Bank of England was still 10 per cent., while the rate of discount in Paris was only $3\frac{1}{2}$ per cent.; in St. Petersburg $5\frac{1}{2}$; in Brussels 6; in Amsterdam 7; and in Vienna 5 per cent."

He advanced as an argument why a Commission should be granted, that there had been three Committees granted. "In 1837, after the deep distress and panic, a Committee of that House was appointed, presided over by the present Lord Halifax. After the panic of 1847, there was a Committee presided over by Sir F. Baring; and after 1857, there was a Committee presided over by the late secretary of the Colonies."

He stated, "if report spoke truly, the Bank of the nation, for the first time in its history, refused to lend money upon Consols."

"What was meant by a rate of 10 per cent. discount? it meant a tax of more than double the usual amount upon 300,000,000*l.* of current bills, or a transfer of many millions sterling from trade and manufacturing profits to money dealing profits. It meant a depreciation in the value of commodities and securities which had been estimated at above 100,000,000*l.*"—"While large numbers of the labouring classes had been thrown out of employment, the profits of the Bank had largely augmented."—"The price of Bank of England stock had greatly advanced," "so that it was perfectly clear, that whatever the effect of the legislation of 1844 might have been on commerce, its action had largely increased the resources of the Bank of England stock-holder."—"During the last twenty years there had been three panics, viz. in 1847, in 1857, and again in 1865, and they would find that every succeeding panic was of greater severity than its predecessor. In 1847, the penal rate of discount fixed by the Government letter, and acted upon, was 8 per cent., which endured for four weeks,

and was followed by a rate of 3 per cent. within three months of the date of imposing 8 per cent. In 1857, the penal rate of discount was 10 per cent. for a period of six weeks, and it was down again to 3 per cent. in three months from the date of imposing 10 per cent. In 1866, the rate of 10 per cent. had continued for about three months. He said, therefore, there must be at work some cause or law which, at every recurrence of these crises, aggravated their pressure."

"Gentlemen in business knew that a large number of loans in this country were borrowed at a per centage called the Bank rate; the assumption being that the Bank rate was, on the average, something like 5 per cent. Consequently if the Directors of the Bank of England, from a mistaken policy, kept the rate of interest at 10 per cent., it was quite clear that the lender of money gained an advantage over the borrowers which was not in contemplation when the loan was contracted. That was a question which ought to be inquired into."

The honourable member alluded to the facility of obtaining Acts of Parliament for the construction of railways, without a suitable guarantee for their completion.

Mr. Akroyd, who seconded the motion, observed: "He should suggest that any inquiry that took place should be conducted on the plan adopted by the French Government in 1865, when the Imperial Commission sent a circular, containing forty very searching questions, to the most important commercial bodies in France, and to the various Chambers of Commerce in this country. It would be a very important branch of the inquiry whether the high rate of discount now maintained tended to bring back the flow of bullion to the Bank of England. In his opinion the measures taken by the Bank of England to bring back the flow of bullion into this country had had a contrary effect to that desired."

Sir Stafford Northcote, the President of the Board of Trade:—

He stated that the Government was desirous that an inquiry should take place as to the cause of the commercial distress, and the prevalence of the high rate of discount, but he did not think a Royal Commission with an instruction to report before the 1st February was the best measure they could take, to which he advanced many objections. With respect to the French Commission, "the inquiry was begun nearly two years ago, and as yet, their labours have had no result." "There are circumstances which distinguish this panic from the panics of 1847 and 1857. We have new facts before us, and it is undoubtedly reasonable to inquire how far the experience we have of the practical working of the Act renders it necessary, if we are to maintain the principle of the Act, that we should attempt to improve its machinery."—"I am bound to say that though the present Government are in no particular sense bound to defend the Act of 1844, that is to say, they have no particular parental interest in that Act, yet, upon the whole, they do believe that the principles upon which the Act of 1844 is based are the sound and true principles upon which our currency should rest."—"It must be obvious that if any inquiries of this sort are to be of real use, they ought to be guided by some general principle upon which we are tolerably agreed, and this is especially true of a subject like this, upon which so much controversy and difference of opinion has existed."

"The honourable member (Mr. Watkin) had stated that this is what is called a credit panic, and the honourable member for Halifax has very correctly, I think, described what the peculiar features of a credit panic are, and how at the moment, when what is called the credit currency of the country collapses, there is a pressure upon the ordinary currency of the

country, and the Bank Act of 1844, to a certain extent, prevents the expansion of currency, just at the moment when such an expansion is most desired by the public."

"Although the loanable capital of the country is large, it is not unlimited; and if a demand is made for loanable capital out of proportion to its amount, great as that may be, it is impossible it should not become scarce, and, being scarce, that it should not be high in price. That, I believe, is the real explanation of what has recently taken place."

"Setting apart altogether for a moment any question about imprudence or unsound speculation, that is in itself, I believe, the explanation of the circumstances in which we are placed, that an enormous proportion of the capital of this country, and a yearly increasing proportion is locked up in securities from which you cannot immediately withdraw it." After observing that "the amount of capital authorized to be raised by the railway and other Bills which have been passed this year and last is 176,000,000*l*," he proceeded: "The savings of the country are sometimes estimated at not more than 100,000,000*l*. a year! Obviously the capital to be raised must come out of the savings of the country."—"The question arises, ought anybody, and if anybody, who is it that ought to provide the trading interests with money to meet their demands? Can you or ought you to make money when money is scarce? I believe that is the real question at the root of these difficulties."—"There are those who say that the money which there is in the country represents the capital, the loanable capital, or gold, or this, that and the other; for there are different theories as to what money exactly is. They say that when there is little, you must cut your coat according to your cloth, and that if you have little money, you cannot expect to be able to get a great deal of money cheap. There

is the other school which says that when this is the case you ought to look to your credit, that money is only a form of credit, and that you ought to attempt to cut your coat not according to your cloth, but that you ought to make your coat of the size convenient to you, and that if you cannot get the cloth, you ought to get something which looks like it. These are, I believe, the real differences which exist between opposite schools upon this question, and it is hopeless for you to investigate practical questions tending to legislation, unless you have made up your mind on which of the two theories you intend to proceed."

"I have no hesitation in saying, on the part of the Government, that they are not of opinion that it is possible, or, if possible, that it is desirable, to meet the difficulties which arise when money has been used up, and there is not a sufficiency of loanable capital in the country, by any fictitious creation of money." It is impossible to deny that "this peculiar kind of panic affects the credit of England, and that the operation of the law, and the necessity of authorizing the suspension of an Act of Parliament, have had a serious and prejudicial effect upon the credit of England."

"I am anxious to impress upon the House and the country that the Government does not believe, and we earnestly hope the country will not believe, that the difficulties under which our credit labours, and the want of confidence that has been engendered is to be removed, or is capable of being removed, by any tampering with your currency and banking laws."

"If we were everywhere to unshackle the limits of enterprise, there is too much danger of enterprise rapidly growing into insane speculation."—The honourable baronet concluded by pressing upon the honourable mover to withdraw his motion, on his assuring him that the Government would carefully investigate the matter, and either legislate upon the subject or

invite the attention of the House to it on the commencement of the next session.

Mr. Fawcett considered the recent crisis a credit panic, "produced by the reckless spirit of commercial gambling which had spread itself over the country."—"A new school had grown up of late years which encouraged the idea that wealth was not to be made in the old-fashioned steady way, but by modern financing, or, in other words, a skilful manipulation of pieces of paper called bills of exchange."—"There was one gratifying fact in connexion with our commercial difficulties. It was that during the crisis not one large commercial concern which carried on a legitimate business had succumbed."

Mr. Hubbard: "It could not be denied that while on the one hand the subject of the administration of the Bank, and the laws of currency did affect the interests of tens of thousands of industrious people, on the other hand we might deal with the question in such a way as to impair and shake the confidence in a matter of primary importance, namely, the integrity of our system of currency."

"He admitted that variations in the rate of interest were not desirable. The more equally we could maintain the value of money in loans, the better for the commercial community and the progress of industry."—"There could be no doubt that to arrest the employment of the labouring classes was a very great evil," but "there must be something exceedingly unsound in the adventure or business in which an employer was engaged, if it (a high rate of interest) exposed him to a sudden cessation of his operations." "Let it not be supposed that difficulties, the existence of which he did not deny, were attributable either to the Bank of England, or to a high rate of interest." "If the honourable member attempted to charge the present difficulties of the country upon any legislation with regard to the currency, he must entirely differ

from him." The honourable member then dilated upon the large loans made by the Bank of England during the crisis.

"According to the honourable member, one of the objects of the Bank Act was convertibility of Bank notes, another the convenience of trade, and a third the avoidance of panic."—"Let it for once be understood what the Bank Act really was. The Bank Act said not a word about panics—not a word about the convenience of trade."—"Its provisions were exceedingly brief and clear. It drew, not one day too soon, a legal separation between the two distinct offices of banking and of issue—while banking ought to be as free as air to everyone, the province of issuing or coining paper into money was an imperial function."—"It was necessary as a rule to limit the issue of credit paper—the issue had been so limited to 15,000,000*l.* the working of the Bank under the Act had shown that it was so perfectly master of its position, so capable of bearing the weight thrown upon it, that it could be subjected to an extra strain without fear. The Act could not in that case be described as an obstruction but the very reverse." He then compared it to a bridge. "The Bank of England was the bridge; the Bank Charter Act the regulation limiting the traffic. The Bank, under the Act, had been able to bear the whole burden imposed upon it, and with such effect, that when a suspension of commercial credit had arrived it was possible to impose upon the Bank a subsidiary currency without that subsidiary currency being exposed to inconvertibility."

"The average amount of bullion held in the last five years of the old system was no more than 6,700,000*l.*, while during the last five years the amount of bullion held was upwards of 15,000,000*l.* If the reserve of the present year had not exceeded 7,000,000*l.*, and it had been subjected to the influences which had recently been brought to bear

upon the Bank, the panic would not have been arrested by the issue of something less than a million; the internal drain would have been much greater, and the occurrence of so many bank casualties would probably have resulted in the suspension of cash payments by the Bank of England. Therefore, he ventured to affirm that the principle of the Bank Act had been victorious: it had triumphed over great difficulties.”—“Nor did he insist that pressure and panic would result only from our system of currency. In the town of Hamburg, with only a silver currency, a crisis occurred in 1847, which resulted in the failure of a hundred and forty commercial houses, and he was of opinion that no system of currency could avoid panic and failure.”—“In no case should encouragement be given to the banking world to assume in any emergency that they had a right to ask the Government to supply them at any price with a reserve which they should in common prudence have secured for themselves.”

Mr. Gladstone concurred with the Government in the propriety of declining to appoint a commission, and said: “I think that the whole of the remarks of my right honourable friend, the President of the Board of Trade, upon the subject were as eminently satisfactory as they were clear.”—“I don’t suppose there is one of us sanguine enough to believe that the proceedings of such a committee would lead to mutual conversion or conciliation on the part of the distinguished professors of the different schools. But, whatever the nature of the report, I am quite sure that as far as it dealt with the principles and causes it would not weigh with this House.”

“At any rate, the convertibility of the Bank note—the first object of currency laws—has been placed beyond the smallest question, not only beyond the reach of absolute danger, but beyond the slightest taint of danger or suspicion. The whole system of meeting

foreign drains has been so completely established, and is now so generally understood, that so far as those drains are concerned, there is no longer any apprehension or difficulty, either in the present or the future. The solution of that problem is of itself a most important fact. The Bank Act of 1844 laid down a principle of great importance, which I hope will never disappear from our Statute Book, that the whole business of issue is the business of the State, and that where that function is exercised by any body other than the State, it must be considered as exercised by delegation only. The profit of issues belongs to the State, and, what is much more important than the profit, the responsibility of issue, also belongs to the State."

"What have we been labouring under? Why is the rate of discount charged by the Bank kept up at 10 per cent.? Because of the limited condition of the reserve, consequent upon banking discredit, and the immense demand made upon its notes and coin to supply this want."

"We have actually seen the country bank circulation diminished by not less than 1,000,000*l.* at the very time of this drain on the Bank of England; and how has the place of this 1,000,000*l.* been supplied? By an enhancement of the drain upon the Bank of England. That 1,000,000*l.* of notes in the coffers of the Bank of England would have been a valuable addition to the reserve of the Bank."

"I hold that no Bank note ought to circulate in the country unless it is just as secure to the holder as a sovereign."—"Undoubtedly it is a fact that this letter (the Government letter) was understood abroad—acting upon a more susceptible state of mind—as amounting to a suspension of cash payments. And I think that no later than by return of post there came an offer, a most friendly offer, from the French Government to assist us with a supply of bullion."

“The working of the Bank Act may be a fair subject of Parliamentary inquiry.”

“The character of this crisis has been a banking crisis. We have been, I think, a little too severe throughout the discussion, upon the general commerce of the country. That commerce has been, so far as I have observed, in a sound and satisfactory state.”

“It has been a crisis mainly connected, not so much with the conduct of commerce, properly so called, as with the employment of money. And I think upon that ground alone, if it should be the general desire of the House, and if the Government do not at once make any proposal of their own—which I should prefer—the Government would be justified in bringing the whole case before a Committee of this House.”

Mr. Henley: “Had or had not the system which had grown up from extensive banking, and which was called ‘financing,’ been operated upon, and partially, if not mainly increased by the working of the Act of 1844?”—Immediately after the passing of the Bank Act, the action of the Bank of England then changed; that whereas before that time the Bank of England were somewhat above the market rate of interest, after that period, directly money was cheap, they became such competitors in the open market, that they went below the market rate.”

“The Governor and Deputy-Governor of the Bank also stated that they did not at all look at the nature and origin of the transactions connected with the paper offered to them, but only to the security; and it was perfectly clear from the evidence that the great money houses which dealt in all that questionable paper and upheld all those questionable finance houses, instead of being checked by the Bank of England, were so strong from the peculiar position of the Bank, that they took that paper to the Bank, and they were

forced to discount it." "All these were questions which must arise."

Mr. J. B. Smith moved the adjournment of the debate, which was agreed to, but which did not take place, the House being counted out on the Friday following, when the debate was to be resumed.

CHAP. XVIII.

MR. WATKIN'S MOTION—INTEREST TEN PER CENT.—M. CHEVALIER'S OPINION—GOVERNMENT APPROVES OF THE PRINCIPLE AND OF INQUIRY RESPECTING THE MACHINERY OF THE BANK ACT—RELIEF TO THE BANK OF ENGLAND SUGGESTED—ADAM SMITH ON SUMPTUARY LAWS—GREAT POWERS OF THE BANK—BULLION PROCURED BY PRESSURE—LORD KING ON BANK RESTRICTION IN 1797—SIR S. NORTHCOTE'S STATEMENT—ON SUSPENSION OF THE CURRENCY LAWS—ON MONOPOLY—CAPITAL—MONEY—BULLION—CIRCULATION—COMPETITION—BULLION WAREHOUSE—BANKING AND ISSUE—FOREIGN DRAINS OF BULLION—GOVERNMENT BANK—LORD ALTHORP.

MR. WATKIN, in moving for the appointment of a Royal Commission to investigate the causes of the late financial crisis, and the laws affecting currency and banking, observed, that a Committee had been appointed on the occurrence of three former crises, viz. in 1837, 1847, and 1857, that the minimum rate of interest was 10 per cent., still charged by the Bank of England, and had continued three months; that the rate on the continent was much lower, and, if report spoke truly, the bank of the nation had, 'for the first time in its history, refused to lend money upon Consols,' and he compared the high rate of interest to a tax of the same rate of 10 per cent. on 300 millions of current bills.

It appears to me to be a fair inference from the unsatisfactory result of former Committees, that they are not the proper tribunal; as the promissory note of the Bank of England is simply an acknowledgment of a debt, and a promise to pay it, I submit that the more proper tribunal would be a Court of Justice, or a Court of Equity, to determine the meaning and obligation of the contract. With respect to

the high rate of interest, that should be controlled by declaring all interest beyond a certain fixed rate to be usury, and punishable by a fine proportioned to the offence.

There is this distinction between the rate of interest and a similar rate of tax, that the tax is paid by all who are liable by law to the assessment, while the high rate of interest is profitable to the banker, the buyer, the exporter of goods, and the creditor; and hurtful to the debtor, the holder of goods and securities lowered in price or value, and to the importer of goods: the refusal to lend upon Consols shows that it is not the wants of "legitimate commerce" which influence the Bank, which prevent "their extending their discounts and advances upon approved securities," but some other want of the Bank itself, and that want is the want of bullion, which the Bank has no other means of obtaining than by a shock to credit, lowering the prices of other people's goods and securities.

With respect to increasing the reserve by taking a portion of the bullion from the issue department, it should be recollected that the whole of the bullion in the issue department was already appropriated to the depositors, either by Bank-notes or by Bank credits, and was not the property of the Bank; on which I have remarked, pp. 556, 557, 558, *antè*.

He quotes the opinion of a celebrated French writer, M. Chevalier, who condemns the present system. "It offends the soundest ideas in regard to credit; it entirely prevents the use of the invaluable auxiliary of credit in surmounting difficulties." My opinion has been sufficiently shown as to the injustice and inconvenience of interfering with credit, and, with respect to the foreign drain, I submit the Bank has nothing whatever to do with it; it should be met by the foreign merchants who want the bullion.

Mr. Akroyd, who seconded the motion, recom-

nended the mode of collecting information which had been adopted by the French Government, which is similar to that formerly recommended by the Cour des Monnoies in France, to which I have alluded, p. 550, *antè*.

Sir Stafford Northcote admitted the propriety of the inquiry in order to see, after the additional experience we have had, if we are to maintain the principle of the Act, how far the machinery might be improved. A distinction is here justly drawn between machinery and principle—but neither the one nor the other is explained—the machinery employed by a banker, whether the Bank of England or a private bank, or a joint-stock bank, would appear to consist in the means at his command honestly to meet his engagements, and the law should enforce the payment of the debt agreeably to the contract.

The President of the Board of Trade is careful to inform the country that “the Government believe that the principles upon which the Act of 1844 is based are the sound and true principles upon which our currency should rest;” at the same time he observes, “they ought to be guided by some general principle on which we are tolerably agreed.”—It should never be forgotten that all the controversy is founded upon the meaning of the words of the Bank of England note, upon the construction to be put upon that *contract*—that construction should be consistent with truth and justice, the only obligations incurred by a “promise” and a “debt.” No machinery, no Act of Parliament can, with impunity, control or change these eternal and immutable principles of *general* application, whether it be the promise and the debt of a national bank, or the engagement of an employer with his daily labourer.

The argument about the loanable capital of the *country* being limited, I submit, is not applicable; that capital belongs to individuals and not to the *country*: nor exclusively or principally to the Bank of England.

With respect to money being "used up:" there was no scarcity of gold and silver money, the only money of Great Britain, and declared to be the only money by Act of Parliament; the *value* of that was not changed by scarcity, nor the *value* of the Bank-note; the value of the *loan* by "discounts and advances upon approved securities" was increased by the high rate of interest charged; the Bank-note is not money, it is payable in *money*, and cannot itself be money. "If we were everywhere to unshackle and set no limits to enterprise, there is too much danger of enterprise rapidly growing into insane speculation."

This paternal solicitude of the Government manifested in the "very salutary and protective influence" exercised over *the currency* in order to check "unshackled enterprise," might very consistently be extended to that extravagance in expenditure in furniture, dress, and equipage which too often is the cause of "insane speculation." Should not Government re-enact the sumptuary laws? Let us listen to Adam Smith on this subject.

Adam Smith, b. ii. c. iii.:

"This frugality and good conduct, however, is upon most occasions, it appears from experience, sufficient to compensate, not only the private prodigality and misconduct of individuals, but the public extravagance of Government. The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of Government, and of the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigour to the constitution, in spite not only of the disease, but of the absurd prescriptions of the doctor."

“The capital, therefore, annually employed in cultivating this land, and in maintaining this labour, must likewise be much greater. In the midst of all the exactions of Government, this capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal, continual, and uninterrupted effort to better their own condition. It is this effort, protected by law and allowed by liberty to exert itself in the manner that is most advantageous, which has maintained the progress of England towards opulence and improvement in almost all former times, and which, it is to be hoped, will do so in all future times. England, however, as it has never been blessed with a very parsimonious government, so parsimony has at no time been the characteristical virtue of its inhabitants. It is the highest impertinence and presumption, therefore, in kings and ministers to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will.”

Let Government be cautious how they check this “universal, continual effort of individuals to better their own condition.” Can it be said that this effort is “uninterrupted,” is “protected by law and allowed by liberty to exert itself in the manner that is most advantageous,” while the “great powers” of the Bank of England exist?

The Committee of the House of Lords observe (p. 311, *antè*):—

“To the Bank of England Parliament has confided great privileges and exclusive powers; for the exercise of these

powers the Bank is responsible. In these respects the Bank of England differs from an ordinary trading corporation; and consequently is bound always to keep in view the real and permanent interests of the commercial classes, and of that great community of which it forms a part. The true interests of the proprietors of Bank stock can never be prejudiced by being considered in connexion with those larger principles."

The Committee of the House of Commons (p. 321, *antè*) observe:—

"The Bank is a public institution possessed of special and exclusive privileges, standing in a peculiar relation to the Government, and exercising, from the magnitude of its resources, great influence over the general mercantile and monetary transactions of the country."

"These circumstances impose upon the Bank the duty of a consideration of the public interest, not indeed enacted and defined by law, but which Parliament in its various transactions with the Bank has always recognized, and which the Bank has never disclaimed."

"It is unnecessary to impose such duty by law, as there can be little doubt that the permanent interests of the Bank are identified with those of the public at large."

Speaking of the banking trade, Adam Smith, who wrote during the existence of the Bank of Amsterdam, which he described as "the great warehouse of Europe for bullion" (see p. 76, *antè*), says: "The principal banking companies in Europe, accordingly, are joint-stock companies, many of which manage their trade very successfully without any exclusive privilege. The Bank of England has no other exclusive privilege, except that no other banking company in England shall consist of more than six persons. The two Banks of Edinburgh are joint-stock companies, without any exclusive privilege." This was written about 1775. B. i. c. v.

I submit that the Bank of England should be relieved from the exercise of such "great privileges and exclusive powers"—from the duty of "keeping in view

the real and permanent interests of the commercial classes and of that great community of which it forms a part"—from "the duty of a consideration of the public interest"—and from "exercising from the magnitude of its resources great influence over the general mercantile and monetary transactions of the country."

I would submit that the Bank of England should exercise only the same influence which it possessed during the existence of the Bank of Amsterdam—the great warehouse in Europe for bullion; that the Bank should be relieved from furnishing bullion to the members of the great mercantile republic; that it should be relieved from the necessity of providing this bullion, the *painful* necessity of lowering the prices of goods and securities, the property of others, in order to procure this bullion from abroad—that this great country should never have presented the humiliating spectacle of its National Bank resorting to the Paris bankers for the loan of 2,000,000 sterling (see p. 279, *antè*); and of being under the *apparent* want of assistance, kindly offered by the Government of France during the late crisis: least of all should this "country" or the "trade" of this country, make enormous sacrifices of property to enable the Bank to provide bullion for the foreigner, with which those who make these sacrifices may have had nothing to do: and more repugnant still should this proceeding be, when effected by a concealed operation—by the introduction of a new phraseology—by the mild epithet of "*pressure*."

I submit, is it not time to discard a system, involving such mortifying circumstances? and is it not most extraordinary that the amount of currency, or the ability to discount bills, should be in any way dependent upon the acquisition of a commodity, of bullion, which the Bank cannot obtain from abroad, with its own means of paying for it—and which, by pressure, it obliges others, at their great loss, to procure for them?

Lord King, in his pamphlet on the Bank Restriction, observes (see p. 357, *ante*):—

“A due regard to general rules, and especially to the great rules of property, forms a most important part of the duty of a legislator. They are the foundation of all private and political security.”

“Had Parliament been called upon to authorize any of those direct frauds upon the currency which have often disgraced arbitrary governments, had it been recommended to them to raise the denomination, or to diminish the value of the current coin, there can be no doubt that such a proposal would have been rejected with indignation.”

It rests with the advocates of the present banking system to show the difference between the power “to raise the denomination or to diminish the value of the current coin;” and the power to lower the prices of goods or securities by a control over the currency—by a contraction of the circulation; or by an exorbitant rate of interest: in both instances it is an effect upon the prices of goods, and a violation of “the great rules of property,” and there can be no doubt that Parliament would have rejected with indignation a proposal to confer such powers on the Bank of England or on any other corporation.

The President of the Board of Trade understands the nature of the case to be something like this: “A merchant or manufacturer is enabled to invest the whole of his capital in business, and, to a certain extent, to borrow the unemployed or loanable capital of others, in order to enable him to await the return of investments he has made.” *

But credit is loanable as well as capital; the Bank of England, when it discounts bills or affords accommodation with its notes, lends its credit only: the operations by credit are much more extensive in commerce than the operations by capital; that credit whether of the Bank of England or of any other bank, of a merchant or of any other individual, rests

* Hansard.

upon confidence that the note or bill will be paid when due: with respect to the Bank of England, that confidence of the borrower does not rest upon the Bank possessing any particular asset, but upon the "fortune, probity, and prudence" of the Governor and Company of the Bank, with a guarantee against any possible loss, of Government securities and the "rest" to the amount of about 17,000,000*l*.

"But we must remember that although the loanable capital of the country is large, it is not unlimited, and if a demand is made for loanable capital out of proportion to its amount, great as it may be, it is impossible it should not become scarce, and, being scarce, that it should not be high in price. That is, I believe, the real explanation of what has recently taken place."

"The savings of the country are sometimes estimated at not more than 100,000,000*l*. a year. Obviously the capital to be raised must come out of the savings of the country."

I consider the whole of this reasoning, as applied to the loanable capital or the savings of *the country*, to be erroneous: each merchant, banker, tradesman, or country gentleman should look to his own capital, his own credit, and his own means of fulfilling his engagements, without troubling himself about the loanable capital, or the annual savings of *the country*.

Was the loanable capital or the annual savings of *the country* increased by the "Government letter," by a suspension of the limitation of Issue, to the extent of five or ten millions employed in addition, by the Bank of England in discounting bills, &c.? The *loanable* power of the Bank was increased, and the power of individuals to borrow was increased, upon approved securities, and nothing was changed, except the withdrawal of the limitation.

The Honourable Member is anxious to impress upon the House and upon the country that the

Government does not believe that "the difficulties under which our credit labours and the want of confidence which has been engendered can be removed by any tampering with your currency and banking laws."

But those "difficulties" and that "want of confidence" *were removed* by "tampering with our currency and banking laws," by removing or dispensing with "the limitation of Issue;" by dispensing with the rule of "pressure"—limitation and "pressure" being the fundamental laws of our present system of currency.

"In the great success of our commercial enterprise there is something that is fascinating to us." But there is something quite as fascinating in the success attending the enjoyment of a monopoly, whether that monopoly exist among the commercial, manufacturing, or banking community; nor does experience warrant an implicit faith in the judgment or moral sensibilities of monopolists when treating of their peculiar interests.

Adam Smith observes, b. iv. c. viii.:

"The cruellest of our revenue laws, I will venture to affirm, are mild and gentle in comparison of some of those which the clamour of our merchants and manufacturers has extorted from the legislature for the support of their own absurd and oppressive monopolies. Like the laws of Draco, these laws may be all said to be written with blood."

We cannot doubt that these monopolists supposed, as they persuaded the legislature, "that the prosperity of the nation depended upon the success and extension of their particular business."

The Honourable Member observes: "The question arises, ought anybody, and, if anybody, who is it that ought to provide the trading interests with money to meet their demands? The question is, can you, and if you can, ought you, to make money, when money is scarce? I believe that is the real question at the root

of these difficulties. It is a question upon which there are two opinions. People are divided into two hopelessly antagonistic schools upon the subject." "There are different theories as to what money exactly is."

The opinion of the Government is announced to be that "when money has been used up, and there is not a sufficiency of loanable capital in the country, it is not possible or desirable to meet the difficulties by any fictitious creation of money."

The difference between the money which is "used up," and "the fictitious creation of money," is not very distinctly drawn. I think the question applies more properly to bullion than to money, "ought anybody, and if anybody, who is it that ought to provide the trading interests *abroad* with bullion to meet their demands?"—Our present banking system appears to be founded upon the principle that when there is not a sufficiency of *bullion* in the country, the difficulties which arise should be met by a *fictitious* creation of bullion for the foreigner; or rather the international traders of the world, the great mercantile republic; *fictitious*, as respects the *payment* by the Bank of England.

To provide a circulating medium by a substitution of promissory notes for gold and silver money, honestly paid in gold and silver *money* when demanded, and both circulating together in *the country* where those notes are issued by a responsible banker, is very different from providing bullion for the foreigner by pressure upon commerce, lowering the prices of other people's goods, and substituting those goods for bullion in the foreign market: and to the question, Who is to provide that bullion? the answer is obvious, Those and those only who want it for their own advantage. We have in our banking system disregarded the obvious rule that those who want the bullion should pay for it; and we substitute for pay-

ment, by those who want it, a *fictitious* creation of bullion by pressure upon those who do not want the bullion, by pressure inflicted by those who are under no obligation to provide bullion in payment of the Bank of England note, which is a promise to pay money and not merchandise. This, I have no doubt, is where the difficulty lies, and which will continue as long as the monopoly of the Bank of England excludes the competition of a multiplicity of bankers in the issuing of promissory notes; and in the absence of a warehouse for the reception and safe custody of the precious metals, transferable like other bonded goods by the owners of the bullion: and placed on such a footing as to make it the interest of the owner of the bullion, and of the foreign merchants to avail themselves of the warehouse.

Mr. Fawcett did not attribute the disasters to the Bank Act, but to a reckless spirit of gambling which had spread itself over the commerce of this country. "There was a gratifying fact connected with all our commercial difficulties." He challenged any honourable gentleman of commercial experience in that House to point out to him a single large commercial concern, which, having done a legitimate business, had succumbed in this crisis.

This would be little consolation to those who had made great sacrifices not to *succumb*.

Writing on the crisis of 1847, Lord Ashburton observed (p. 12): "To a banker no price is too dear for the maintenance of the purest credit, and even at this moment the public will never know the individual losses occasioned by the present pressure; these are secrets which few are able to make public with impunity." The same reasoning applies to the credit of the merchant.

Mr. Hubbard observed: "The Bank Act said not a word about panics, not a word about the convenience of trade." But the Bank Act was silent upon more

subjects than these: it said not a word about "pressure," about lowering the prices of goods and securities to meet a demand for bullion—not a word about exchanging notes or paying notes with uncoined gold or bullion, and cancelling those notes—not a word about appropriating six or seven millions of gold in the Issue Department, and giving no notes or available receipts for it, which cannot be claimed or demanded, and which accounts for the increase of the bullion reserve from 6 or 7,000,000 to 15,000,000*l.*, which accounts for the bullion in the Issue Department, being never exhausted; therefore it is not sufficient that "the Act should be allowed to speak for itself," the *action* of the Bank cannot be known from the Act itself.

In the Report of the Committee of 1858, we are referred for the opinions of the most eminent writers on the currency to the evidence taken in 1857, and we may be allowed to give the opinions expressed in that evidence as explanatory of the action of the Bank of England. (See p. 533, *antè*.)

Mr. Hubbard: "It drew not one day too soon a legal separation between the two offices of banking and issue."

What is the issue? In the Government letter it is said (p. 567, *antè*): "If the Directors of the Bank of England shall find it requisite to extend their discounts and advances upon approved securities so as to require issues beyond the limits fixed by law, &c." I beg to refer to pp. 506, 507, *antè*, by which, I think, it appears that notes have been issued in discounting and making advances, within the amount limited, on similar securities since and before the Bank Act; whether by the Bank of England, Joint Stock Banks, or private Banks, having the privilege to issue notes: the offices of Banking and Issue appear to be no more separate since than before the passing of the Act. Why the issue of credit paper should be determined

by Act of Parliament, and not by the competition of bankers and the wants of the community, is a fit subject of inquiry.

The statement of the accounts, placing the Government Debt, as the foundation of issue, on the credit side of the Issue Department, instead of its remaining as a guarantee fund, requires explanation—and why the same debt is placed to the debit side of the Banking Department.

With respect to “the average amount of bullion being 6,700,000*l.* during the last five years of the old system, while during the last five years the amount of bullion held was upwards of 15,000,000*l.*”—for the reason of this increase I refer to p. 506, *antè*.

The illustration of the bridge thrown across a river, I consider, is not complete: it should be added that the bridge was leased to an irresponsible corporation, with permission to raise or lower the tolls in order to increase or diminish the traffic according to their interest or convenience; and in subserviency to a previous contract (an imaginary contract) with a foreign customer to which all the other traffic was to give way: some may suppose that it would be wiser for the public to quit the river, the bridge, and the high tolls, and to use the highway open to all who would conform to the rules of the road, and pay a toll not exceeding a certain rate.

Mr. Gladstone: “I had thought that in many respects at least we must recognise the great benefits derived from the working of this Act—the convertibility of the Bank-note had been placed beyond the slightest taint of apprehension or suspicion.”—“So far as foreign drains are concerned, there is no longer any apprehension or difficulty either in the present or the future.”

The word “convertibility” has two meanings, when applied to the Bank of England note: to the payment with *coin* for the national circulation, and to the

payment with *bullion* for exportation: these two meanings are quite distinct, as distinct as *money* and *merchandise*.

To lower the prices of goods or securities in order to prevent or check the drain of bullion, or to procure it from abroad, either by contracting the circulation (agreeably to Sir Robert Peel's plan), or by raising interest to any rate required for the purpose, may be attended with no apprehension or *difficulty* on the part of the Bank of England; but it produces a shock to credit, and great *difficulty*, and enormous loss, to the owners of goods and securities, whose property is reduced in value, in order to procure this bullion for the Bank of England.

Speaking of the proposed Commission, Mr. Gladstone expresses his conviction, "that so far as it related to causes and principles, it would not weigh with that House." Experience would appear to confirm this opinion. On two occasions when the Currency question was before the House, they have been *counted out*; and the resolution on Mr. Vansittart's motion, when considering the Report of the Bullion Committee in 1811, would not strengthen the opinion that the House of Commons was a satisfactory tribunal for discussing the currency question. (See p. 232, *antè*.)

With respect to the State having "the whole business of issue," and "the profits of issues," and "the responsibility of issue," that principle was brought under the notice of the Committee by Sir Robert Peel when he introduced the Bank Bill. He observed: "This question was under the consideration of the House when Lord Althorp brought forward the Bank Charter Bill in 1833. It had also been the subject of consideration in the Select Committee of 1832; and Lord Althorp, in moving the extension of the Bank Charter, discussed the policy of a single Bank of Issue, to be constituted by and responsible to the Government." "Having mentioned the name of

Lord Althorp, I must," said Sir Robert Peel, "though I differ from that noble lord in respect to politics, bear testimony to his integrity, and to the soundness of his judgment in all financial matters. No man who ever filled the office which the noble Lord then held is entitled to stand higher in public estimation as respects those qualifications for a public trust. On the occasion to which I have just referred Lord Althorp said, 'Another point for consideration is, whether the profits, which must necessarily be derived from the circulating medium of the country, should be possessed by Government, or should be allowed to remain in private hands?' Now, sir, the advantages, the only advantages, which I have been enabled to discover in a Government Bank, as compared with a private company, are those which result from having responsible persons to manage the concern, the public deriving the benefit of it; but then, on the other hand, I think these advantages are much more than counterbalanced by the political evils which would inevitably result from placing this Bank under the control of the Government. I think that the effect of the State having the complete control of the circulating medium in its own hands would be most mischievous." *

* Sir R. Peel's Speeches, p. 34.

CHAPTER XIX.

MR. GLADSTONE ON THE TEN PER CENT. RATE OF DISCOUNT, WITH REMARKS—LORD ASHBURTON ON THE MODE OF RELIEVING THE CRISIS OF 1825—DISAPPROVES OF THE BANK ACT—MR. GLADSTONE ON THE HOUSE OF COMMONS DISCUSSING THE QUESTION OF THE CURRENCY, WITH REMARKS—ON THE PAYMENT OF THE BANK-NOTE WITH BULLION—ON THE PRINCIPLES OF THE CURRENCY—A DIFFERENT PAYMENT SUGGESTED—ON A PRETENDED PAYMENT—LORD ASHBURTON ON THE EVILS OF OUR PRESENT BANKING SYSTEM—ON THE DUTY OF THE GOVERNMENT—MEMOIR OF ADAM SMITH—ON THE MEANS OF THE BANK OF ENGLAND TO PROCURE BULLION—A NEW MEANING GIVEN TO WORDS WHICH FAVOURS THE SYSTEM—ADAM SMITH ON MONOPOLY—LOCKE ON THE ABUSE OF WORDS—PROPOSITIONS SUBMITTED BY THE AUTHOR—ON SCARCITY OF MONEY—ON SEIGNORAGE, OVERISSUE, AND HIGH PRICES—ON THE USE OF BULLION—ON FREEDOM OF CREDIT, COMMERCE, AND PRICES.

MR. GLADSTONE: "What have we been labouring under? Why is the rate of discount charged by the Bank kept up at 10 per cent.? It is because of the limited condition of its reserve. And why is the reserve so limited? Because of the immense demand consequent upon banking discredit—the immense demand made upon the notes and coin of the Bank. Notes and coin have been called to supply this want."

I would ask, what is the reserve? Is it a reserve of bullion? The French Government so considered it, and, in my opinion, very justly. A supply of bullion would have enabled the Bank to increase their supply of notes, and this raises the question, why is there any such thing as a reserve of bullion beyond the requirements for coinage?—why is the issue of notes

dependent upon bullion?—why is there a limitation of notes ?

Lord Ashburton (p. 13) states in 1825, when the gold of the Bank was drained within a very few thousand pounds, “in a conference between Lord Liverpool, Mr. Huskisson, the Governor of the Bank, and himself,” “A large additional issue of notes was determined on, which afforded immediate relief, including 1,500,000*l.* of 1*l.* notes accidentally found. The notes, by this proceeding, were increased from 19,748,000*l.* in December 1825, to 24,479,000*l.* in March 1826; and having served to relieve the pressure, they gradually subsided, before the end of that year, to their ordinary amount of 19,951,000*l.*” “The credit of the Bank for all domestic purposes was perfect.” “The gold was not wanted to send abroad.”

Lord Ashburton calls “the Act of 1844” (p. 29) “the great bugbear,” and p. 27: “The acting under it would be laughably absurd, if the consequences we are experiencing were not so serious.” “Do these reasoners comprehend the losses occasioned by this depreciation of all property when this screw is applied, to correct every occasional fluctuation of the exchanges?” Speaking of the panic of 1825, Lord Ashburton observes (p. 11): “The panic produced a rush upon the most wealthy and solid establishments by all who had claims upon them;” “and it is worthy of remark that the claims of the depositors were always the most formidable: they called for their hundreds, while the holders of notes, though more numerous, came for single pounds.”

Mr. Gladstone: “Charged as we have been for half a century with all the interesting discussions and considerations of the principles relating to the currency, it would be a great innovation to deliver over the prosecution of that subject into other hands; and the effect of that innovation would, I believe, be injurious and detrimental to the progress of the question itself.”

Are we quite satisfied that the "principles" which we have taken for granted, during "these interesting discussions" relating to the currency, are the true principles; that these principles rest upon a true consideration of the facts; and that these facts warrant the conclusions?

"To discover error in axioms, or in first principles grounded on facts, is like the breaking of a charm." (See p. 242, *antè*.)

Is the practice of the Bank of England consistent with the rule laid down by the Committee of the House of Lords: "The first duty of the Bank of England is, so to conduct its affairs as to secure the means for the performance of all its engagements with integrity and good faith;" to attain the convertibility of the note "by proper means"? (See p. 307, *antè*.)

Is it consistent with that "duty" to pay the Bank of England note with bullion, procured not at the expense of the Bank, but at the cost of the owners of goods and securities?

Is it consistent with the contract expressed in the Bank-note, to pay the note with bullion, which is merchandise and not money? What is the currency? what is the question? what is the engagement? what is money?

All these questions are answered by the tenor of the Bank of England note—comprising the promise and the engagement. Have these discussions been limited to the *moral* obligation of the Bank of England to pay its notes with money, the money of the realm, the "pound," the "sovereign," declared by Act of Parliament to be the only money of Great Britain? *

If we confine the meaning of the pound to money, and the convertibility to the payment in money, we may arrive at a just appreciation of the engagement—a very *homely* solution of a great difficulty. Let

* See p. 471 *antè*.

us be assured of the soundness of the principles which we advocate, those principles must rest upon the *solid* foundation of truth and justice ; let nothing induce the Government to deviate from these immutable and eternal principles ; and however imperfectly I may have been an exponent of those principles in their application to our banking system, I am encouraged by the consideration that “he who jogs forward on a battered horse in the right way may get to the end of his journey, which he cannot do who gallops the fleetest courser of Newmarket out of it.” *

I will suggest another mode of separating the domestic circulation of promissory notes from all dependence upon the international bullion, which is “alternately imported and exported for the purposes of foreign trade.”

If the Bank of England notes were made payable in “sovereigns” at the Bank of England *only*, and at all other places in ancillary coins—these ancillary coins or tokens to be coined at the rate of fifty to the pound Troy, instead of at the standard weight of 46*l.* 14*s.* 6*d.*—there would always be a difference of about 2½ per cent. between the sovereigns and these coins. These *Bank*-notes to be of the denomination of 5*l.* and 10*l.* only—these notes to be a legal tender for ten pounds, and the coins these notes are payable in to be a legal tender for five sovereigns; these notes would pass in the domestic circulation at the same value as the notes payable in sovereigns, because sovereigns could be always had for them at the Bank of England.

These notes, relatively to each other, would be in the same position as the gold and silver coins now current; the notes payable in the gold tokens, would not be presented for payment in order to export the gold; as the silver coins are not exported,

* Bolingbroke.

there would be a loss of about $2\frac{1}{2}$ per cent. on their exportation.

This would effectually separate these coins, and secure this domestic circulation from all demand for bullion for exportation; and the limitation of the denomination to 5*l.* and 10*l.* would prevent their being collected for the purpose of being sent to be exchanged for sovereigns at the Bank of England, as the public would not spare them.

The new gold-pieces and the new notes may have their distinctive device and appellation. It would be well to introduce them gradually, as experience might warrant—the value to be expressed on the notes and on the coins. (See p. 64, *antè*.)

A pretended payment renders our present Banking and Currency laws amenable to the same obloquy that was heaped by Adam Smith on the pretended payment of debts by the adulteration of the coin: the principle is the same of paying debts with adulterated coins, or not paying them at all at the cost of the debtor. There is this difference—the secret motive of the Kings of France was to defraud their creditors on the plea of necessity, and for their own advantage; no one accuses the Government of this country, or the Directors of the Bank of England, of any wish to appropriate to themselves the advantage of this pretended payment. Sir R. Peel saw no alternative. It is endeavoured to palliate the injustice by the unfounded assumption that the country must pay the debt to the foreigners (p. 243, *antè*), and the trade of the country (p. 253, *antè*). But neither the Government, the country, the trade, nor the Bank of England have, morally or socially, anything whatever to do with the payment of the Bank-note with bullion to the great mercantile republic. This payment is as foreign to the payment of the note, as it would be with any other merchandise; the principle would be the same, whether bullion, tea, tobacco, or coffee.

Nor is the plea that money is more scarce and therefore must be dearer better founded; the value of the money is fixed, the price only of the loan varies.

Lord Ashburton is a remarkable instance how the true principle may escape the sagacity of the practical and experienced. Lord Ashburton advocated a payment in gold and silver both—the great fallacy of the French economists for centuries; and did not repudiate the payment of the note with bullion to the foreigner—the great fallacy of our present system. He thought the difficulty might be met by the prudence and sagacity of the Bank Directors. The demand for bullion is quite distinct from the demand for coin. The demand for coin may arise from want of confidence in the “fortune, probity, and prudence” of the banker: the demand for bullion arises from the want of a convenient commodity to meet bad markets, and is a question of the profit or loss attending the sale of other commodities. Lord Ashburton entirely mistook the cause and the remedy. He was right in thinking that, if “these enormous fluctuations in the value of property, and these occasional disturbances of manufacturing industry, were inseparable from the circulation of bank-notes, it would be more safe to have no banks of issue; we pay too dear for this accommodation, great and useful as it is.”* This is applicable to the payment of the note with bullion—not to the payment of the note with coin, with money, the sovereign, the only money of the realm. We pay too dear for the convenience of payment in bullion, procured at the price “of enormous fluctuations in the value of property,” and “disturbances of manufacturing industry.” But Lord Ashburton considers it is a matter of accommodation, of preference; but it is not a question of accommodation, or choice, but of duty. It is a breach of contract, when viewed in its true light, as paying the note with the property of others, and it is to the obscurity of language and the subtilty of the system it owes its main-

* Financial and Commercial Crisis, 1847, p. 19.

tenance. When exposed in its true colours, it becomes amenable to the charge of a pretended payment. In order to prove the truth and justice of the system, the Government must show that bullion is money,—that the Bank proprietors, through their managers, the Bank Directors, buy this bullion abroad (when not to be had at home), with their own goods,—that the statements of their weekly accounts are clear and intelligible at a glance,—that the depositors may be paid their bullion in deposit, when they choose to demand it,—that they have notes, the only means of obtaining it,—that exorbitant interest is morally justifiable,—that there is no concealment,—that the action of the Bank is consistent with the commands of the Decalogue ; that it is consistent with the civil law, as propounded by Justinian (see p. 319, *antè*)—“ *Alterum non lædere, suum cuique tribuere* ;” that it is consistent with the common law, “ *Sic utere tuo, ut alterum non lædas*.”

It may be interesting, to some unacquainted with the life of Adam Smith, to trace his several appointments, in order the better to judge how far his acquirements entitled him to the fame he enjoys as the first of political economists.

Being nominated by the University of Glasgow to an exhibition of Balliol College, Oxford, where he was a hard student seven years, improving himself in his acquaintance with the Classics and Rhetoric, he lectured at Edinburgh, in 1748, on Rhetoric and Belles Lettres. He afterwards filled at Glasgow the office of Professor of Logic, and was about a year afterwards elected to the Chair of Moral Philosophy. He published a “ *Criticism on Dr. Johnson’s Dictionary* ” in 1755, and his next work was his “ *Theory of Moral Sentiments*.”

“ For thirteen years he had directed the minds of a numerous class of scholars to the important study of Political Economy, which had not before his time

been deemed essential to a course of Moral Philosophy, or was at least slightly treated as such." To his work on the "Theory of Moral Sentiments" was appended an "Essay on the Formation of Language."

In 1763 Dr. Smith was engaged to act as travelling tutor to the young Duke of Buccleugh. They remained eighteen months at Toulouse in France, whence they proceeded to Geneva, where they remained a short time, and thence returned to Paris. "The rank of his pupil and the friendship of Mr. (David) Hume were the means of introducing him to the first circles of fashion and literature in France."

"It was in this tour (says his French translator and biographer, Garnier) that Smith collected the information respecting the interior of the country, which we find in his "Wealth of Nations," because his scrupulous adherence to truth would not allow him to quote any person's observations but his own, and it is this which gives so much weight to all those reasonings which he deduces from them."

"On Mr. Smith's return to England, in 1766, he spent three years in London with the Duke of Buccleugh, who (according to his Grace's own words to Mr. Stewart) loved and respected him, not only for his great talents, but for his every private virtue."

"In 1776 he repaired to London, having been nominated one of the Commissioners of the Customs in Scotland."—"In 1778 he removed to Edinburgh, to discharge the duties of his office, which he performed with the utmost scrupulousness, often examining accounts minutely before he affixed his name, though his signature was a mere matter of form."

"He was in 1787 elected Lord Rector of the University of Glasgow."

"For about twenty years of the most valuable part of his life, his almost undivided attention had been devoted to inquiries respecting the nature and causes of the wealth of nations, and it was in his retirement

at Kirkaldy that he found time to arrange and comment upon the facts and observations he had collected."

He died in July 1790.*

We shall never understand the action of the Bank of England, unless we consider it as involving a pretended payment; when inconveniently pressed for bullion, it neither performs its *assumed* promises, nor pays its *assumed* debts, as respects the bullion, from its own assets; and a new meaning is given to words which favours the present system.

The Governor and Company of the Bank of England are in the Banking Department viewed in the same light as other bankers, who circulate their promissory notes.

4015.† The same Governor and Company "are in the Issue Department merely *mechanical instruments*," exchanging notes for bullion and bullion for notes, without discretion or responsibility—"a machine."‡

The unconditional promise to pay pounds, sovereigns, money on demand, is interpreted to mean, in the Banking Department, to pay coins for the home or domestic circulation; and in the Issue Department, to pay bullion, merchandise, for exportation.

3899. The Bank-note, the most distinct and express *promise* to pay pounds, money, is interpreted to mean neither a promise nor *contract*, but a *certificate* of bullion. "Bank-notes are nothing more than certificates of bullion in deposit," and "ought to fluctuate exactly as the bullion fluctuates," although there are notes issued for only about one half of the bullion, and which does not accord with the following statement:—

3880. July 10, 1857. "Precious metal in the Banking Department I consider to be currency, but not bullion in the Issue Department, because, against that, notes have been issued representing it."

* From the Life prefixed to the Glasgow edition (3 vols. 1805).

† Lord Overstone, July 1857. ‡ Sir R. Peel.

3881. "The uncoined bullion? Coining has nothing whatever to do with the question. Coining or non-coining is a mere question of mechanical convenience."

3811. "Paper notes are merely a mechanical contrivance to be used for convenience in lieu of that metal" (bullion).

Lord Overstone, 14th July, 1857 (4193): "I must speak plainly; I have a great public duty to discharge in giving my evidence upon this matter."

Some of our greatest writers have employed the full strength of language, in exposing what they considered prejudicial to the cause of justice, or to the interests and honour of their country.

The monopoly of the East India Trade was in importance equal, perhaps, to the monopoly of the Bank of England. Yet the splendour of its establishment, and the extent of its dominion, did not protect it from its being included in Adam Smith's condemnation of monopolies.

He observed (b. iv. c. vii.):

"It is the system of government, the situation in which they are placed, that I mean to censure—not the character of those who have acted in it." After observing, "In war and negotiation, the Councils of Madras and Calcutta have, upon several occasions, conducted themselves with a resolution and decisive wisdom which would have done honour to the Senate of Rome in the best days of that Republic," he concludes: "Such exclusive companies are nuisances in every respect, always more or less inconvenient to the countries in which they are established, and destructive to those which have the misfortune to fall under their government."

I have given an extract from that great philosopher, Locke, on a departure, by those who treat of money, from the "plain, true, honest" sense of words. (See p. 234, *antè*.) He thus expresses himself on the "Abuse

of words:”—“There is scarce any sect in philosophy which has not a distinct set of terms, that others understand not; but yet this gibberish, which, in the weakness of human understanding, serves so well to palliate men’s ignorance and cover their errors, comes, by familiar use among those of the same tribe, to seem the most important part of language, and of all others the terms the most significant.”

“Besides, there is no such way to gain admittance, or give defence, to strange and absurd doctrines, as to guard them round about with legions of obscure, doubtful, and undefined words; for untruth being unacceptable to the mind of man, there is no other defence left for absurdity but obscurity.” *

I have endeavoured in the preceding pages to explain my reasons for considering our present system of banking to be founded on fallacious principles, and with due deference I submit the following propositions:—

That the Bank Act be repealed or modified, in order to remove all dependence upon bullion for a supply of promissory notes.

That the promissory notes of the Bank of England, and of all bankers, be paid with coin only; and the payment with bullion be declared illegal, and subject to a penalty.

That the monopoly of the Bank of England be withdrawn, and the circulation of paper money or bank-notes be supplied by that Bank and other bankers; the amount of circulation to be determined by the competition of bankers, and the wants of the community.

That a certain rate of interest be fixed by the legislature, and any rate above this to be declared illegal, and the offending party to be liable to a penalty.

That a bullion warehouse be established for the

* Book iii. chap. 10.

safe custody and delivery of bullion, either for coins for the domestic circulation, or for the supply of the foreign trade, to be at the sole disposal of the owner, and transferable by him, as other bonded goods, subject to such charges, and such regulations, as may be found expedient.

When we read in section 8, and p. 475 *antè*, that a few bill brokers held so many millions in deposit; and in section 25, that on the 21st November the Bank of England had advanced in discount 21,600,000*l.*, and that "half of these loans had been made to the bill-brokers, and were partly made upon securities which, under other circumstances, the Bank would have been unwilling to accept, they were made for the purpose of sustaining commercial credit in a period of extreme pressure." May we not conclude that the business of discount is too much engrossed by the Bank of England and the bill-brokers, however respectable, and would be more safely and conveniently distributed among that Bank and other bankers, issuing their promissory notes, together with the bill-brokers?

In p. 239 (*antè*) will be found an extract from Adam Smith, on the complaint of a scarcity of money: "Over-trading is the common cause of it." He wrote during the existence of the Bank of Amsterdam, and no allusion is made to any prevailing panic: he observes—"Money, like wine, must always be scarce with those who have neither wherewithal to buy it, nor credit to borrow it. Those who have either will seldom be in want either of the money or the wine which they have occasion for."

There was then no limitation of paper-money, and no control over credit or currency, by limitation or pressure.

Adam Smith (b. iv. c. v.) expresses his belief that a famine has never arisen, during either the course of the present (1775) or that of the two preceding cen-

turies, in any part of Europe, "from any other cause but the violence of Government attempting, by improper means, to remedy the inconveniences of a dearth."

Let Government be careful not to produce a *monetary* famine, by attempting by *improper means* to remedy the inconvenience of a scarcity of money.

In chapter iii. p. 42 (*antè*), I have treated largely "on seignorage." Adam Smith supposed that "a small seignorage, or duty upon coinage, would increase the value of the metal coined, in proportion to the extent of this small duty."—"The superiority of coin above bullion would prevent the melting down of the coin, and would discourage its exportation."

I have given at great length my reasons for differing from him; but if Adam Smith is right, this increased value of coin above bullion, in the home market, would occasion a preference being given to bullion for exportation, and protect the Bank of England from any demand for coin for exportation, and confine the demand for exportation to the bullion in the warehouse; and promote the adoption of the principle I advocate, of separating the demand for bullion for exportation from payment with bullion by the Bank of England. I should be rejoiced to find that I had been mistaken on this subject.

Lord Overstone, 10th July, 1857 (4093): "Then why do you object to my question, which infers that the evil resulted from the Act of 1844, if its repeal would have restored confidence? The repeal of the Act of 1844, if it had admitted of an unlimited issue of paper, would have medicated to the evil at that moment, but it would have involved the country in all the dreadful horrors of an excessive issue of paper, and would probably have substituted for what took place the suspension of specie payments altogether."

It is not the "horrors of overissue," as respects the circulation of promissory notes, which would produce a suspension of specie payments—that overissue would

correct itself—but the “horrors” of high prices which might have resulted from the Bank of England discounting at a lower rate, and which might have occasioned an export of bullion, and have interfered with the payment of the Bank-note with bullion.

It is high prices which occasion the export of bullion, and low prices and bad markets occasion the import of bullion.

The proper corrective of too high prices and of too low prices, that which brings commodities to what Adam Smith calls “the natural price,” is the bullion itself—the free import and export of bullion; that is the protective influence which befriends the merchant, the manufacturer, and the consumer, which should always be at *their* command, provided by the bullion merchant, and provided by those who have paid for it; quite independently of any action of any Bank; independently of any action upon credit, or upon the issue of commercial bills or promissory notes; the law forbidding the payment of notes with bullion, agreeably to the contract; credit should be free, prices should be free, and commerce should be free; and the Bank of England should be free, and all other banks, from any demand for bullion, which should be placed, as the Legislature has now done, in the list of exports and imports, as other merchandise. I submit that until this is done there will be no security for commerce, or the rights of property, as respects the value of securities and commodities.

There should be no antagonism between credit and commerce; each should be free to promote the welfare of the other, founded upon confidence in the “fortune, probity, and prudence,” in the integrity of the borrower and lender: the banker, the merchant, the manufacturer, the tradesman, and the labourer have one common interest, and should all unite in harmonious action,

Alterius sic

Altera poscit opem res, et conjurat amicè.

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